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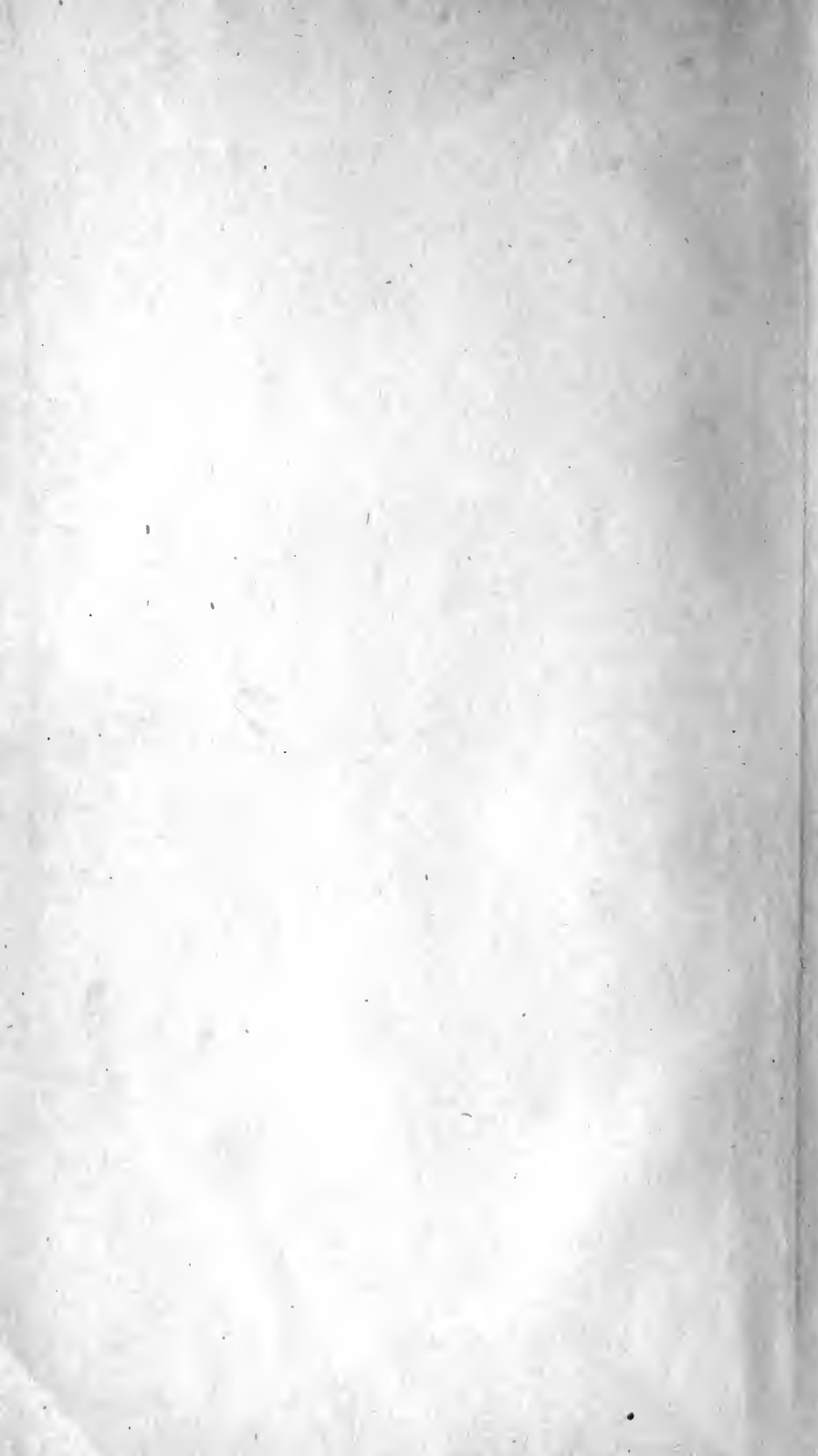
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PROCEEDINGS  
OF THE  
ACADEMY OF POLITICAL SCIENCE  
IN THE CITY OF NEW YORK

Volume VIII]

July, 1918

[Number 1

NATIONAL CONFERENCE  
ON WAR ECONOMY

A SERIES OF ADDRESSES AND PAPERS PRESENTED AT THE NATIONAL CONFERENCE  
ON WAR ECONOMY HELD UNDER THE JOINT AUSPICES OF THE BUREAU  
OF MUNICIPAL RESEARCH AND THE ACADEMY OF POLITICAL  
SCIENCE IN THE CITY OF NEW YORK, JULY 5-6, 1918

EDITED BY  
HENRY RAYMOND MUSSEY

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Monograph

## PROCEEDINGS OF THE ACADEMY OF POLITICAL SCIENCE

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## EXECUTIVE RESPONSIBILITY IN ILLINOIS<sup>1</sup>

FRANK O. LOWDEN  
Governor of Illinois

IT is not necessary to point out to an audience of this kind that government is no longer the simple thing it was half a century ago. We have gradually been taking on new functions of government. Merely to preserve order is not the sole end of government in the minds of the American people today, and as government from year to year has taken on new functions it has created new agencies for the discharge of those functions.

The most popular form which that agency has taken in recent years in the state, and perhaps in a lesser degree in the municipalities, has been the commission. When a commission was once established it was related to absolutely nothing else in the state government; it was theoretically responsible to the governor, but it was not articulated with any other branch of the government. Then, when another new activity was invoked, a new commission was organized, or some other form of activity to take its place. That had been going on year after year until in Illinois, at the beginning of 1917, there were something over 125 absolutely independent agencies of government having nothing to do with one another, not related or co-ordinated in any manner. Though each was theoretically responsible to the governor, of course in practice it was impossible for any governor, no matter what his industry, to exercise genuine supervision over this number of agencies. There was of course much overlapping of functions, there was much needless expense, and perhaps worst of all, there was of necessity great inefficiency.

That is the problem we had to meet when our legislature assembled a year ago last January. Fortunately, a very able commission had been at work making a survey of our state government, and they made an admirable report. Taking that report as a basis, we tried to group these more than 125 agencies into a smaller number, putting those that were related to the same general subject

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<sup>1</sup>Read at the National Conference on War Economy, June 5, 1918.

under one head. We found that nine departments would logically include all of them. Those departments were: finance, trade and commerce, public welfare, public works, labor, mines and minerals, agriculture, public health, and registration and education.

After we had determined upon the number, the question of the form of the departments arose. It is perfectly obvious that it would have required a revision of all the laws of the state unless we simply conferred upon a department, when we decided upon it, all the powers that were possessed by the various agencies which were merged into the department. That we did.

Next, the question arose whether in framing the administrative code we should define by law the functions of heads of bureaus and divisions within a department. I insisted strongly that all the powers in the department should be concentrated in the department head, who, by rules and regulations, not by statute law, should provide exactly what the duties and powers of the subordinate divisions within that department should be. That view prevailed after much discussion. As a result, the head of a department can be held to a strict responsibility, because every subordinate part of that department is absolutely within his control. He can determine by rule and regulation exactly what the duty of every subordinate within the department shall be. If you do not accept that principle, you may have in form a government of departments, but in fact you will have a number of bureaus and divisions which are not responsive to the head of the department. That is exactly what has happened in Washington. You hear frequently that they have ten departments of government down there. They have hundreds, not ten, and for this reason: When Congress creates the Department of War, it does not stop there, but every time it establishes a new bureau in the War Department, it defines precisely and definitely just what the limits of that bureau are, and just what the bureau chief can or cannot do. The result is that the secretary of war is not the head of that department. He simply presides over any number of absolutely independent bodies within that department. The result is that you cannot have responsible government, and our friends in Congress, who are largely lawyers, when they frame a law, get themselves into the mental attitude of a lawyer who is drawing a will, wanting to provide for every conceivable contingency that will arise in the

course of the next two hundred years. The result is, however wise they may be, that red tape becomes absolutely inevitable, and it is not the fault of the administrator but the fault of the legislator that we have so much red tape in government.

It so happens that during the development of perhaps the last half of the last century, the thought that was in men's minds when they framed constitutions and when they framed laws was, "You must prevent some public official from doing something wrong." They were thinking of that all the while, not of putting the public official in a position where he could affirmatively do something good. The ingenuity of man could never work out any scheme by which you can tie men's hands for evil and leave them free for good. You must give power commensurate with the responsibility which you are going to exact. So this administrative code, which we in Illinois adopted a year ago this last winter, had for its first principle the concentration of all the powers in the department in the head of that department. He is supreme, and therefore if I ask him why this has been done, or why the other thing has not been done, he cannot say that it is because he has no power, for he does have power, and therefore must take responsibility.

The other great principle which we put into the code was this, that it is individuals who do things and not bodies of men. We have acquired the habit, of late years, of creating a commission every time something goes wrong. The fact is, and I submit this to you who have had experience in business, that it is the individual who executes all the while, and not a board or a commission. There is no commission anywhere and there never was, and there is no board anywhere and there never was, that did things affirmatively unless it was absolutely dominated by one man, and the only benefit of the rest of them was in an advisory capacity, and if they did not hamper him, the body was fortunate. Now, if that is true, and it is true, I submit to you who have had experience with committees of all kinds, when it comes to administration, since you must rely upon one man anyway, why not appoint him and omit the others? Then he will not be hampered, at least. At the head of each of these nine departments we put a man and not a board nor a commission. We stood by that principle. It is true that there is wisdom in numbers, as we are told, and it is true that the man at the head of any great work likes the

advice of other men. So, meeting your chairman's suggestion of co-operation on the part of citizens with public officials, we created advisory boards with no power to administer, no power to decide unless they were asked by the actual executive head of the department. As a matter of fact they are frequently called into a meeting, their advice is sought for, they have just as much influence, and yet the decision is actually made by the head of the department. We have used these advisory bodies very freely. In that way many of the most eminent people of our state are serving the public, because there are many men whom you can get to work for nothing a year that you cannot get to work for \$2,500 a year. The result is that we have relations with the best thought and the best effort in the different lines of activity.

The department of finance really became the keystone of the structure, and that, in effect, was a new department of state government with us in Illinois. It was given two sets of powers. First, it was authorized to provide for a uniform system of book-keeping, and a system of reports of all the activities of the state, so that it could supervise all accounts rendered by any department. It had the power to ascertain the legality as well as the correctness of any account. It was required to approve of vouchers that should be paid. This department, therefore, was a very important part of the scheme of government that was created by the administrative code.

The next and perhaps most important duty of all that was devolved upon the head of the department was the duty of the preparation of a budget. He was required not only to assemble the estimates and expenditures of the preceding year, but he was given power to require testimony by the head of a department who might make a request, upon the need of that request; in fact, he was given all the power that could be given him under the constitution, to make a thorough and exhaustive investigation into the needs of every department of government.

He also was empowered to establish summary and controlling accounts. He was permitted to require the several departments at the beginning of a year, or before any part of an appropriation theretofore made could be expended, to make analyses month by month of how the head of that department proposed to apportion the amount of money granted to him among the several forms of activity within that department.



Obviously, the department of finance is from the beginning of any fiscal year discharging the duties of a budget commission. Our fiscal year begins on July 1. Our department of finance, then, on July 1 begins in effect the preparation of the budget for the next biennium, because, by virtue of its power of scrutinizing accounts, and of going into accounts, and because of the requirement that it shall approve of vouchers upon appropriations before they are paid, it must day by day be acquiring the information which is required for the initiation and preparation of the budget for the next biennium. Our legislature meets but once in two years, and therefore we appropriate for two years at a time.

Of course we have had no opportunity to submit a budget prepared under this code. We do not know now just how we shall be able to co-operate with the general assembly when we do prepare it. But I think that the disposition of our general assembly is such that if it can be persuaded that a certain course is the right one, it will adopt that course. It must be remembered that our general assembly passed, of its own motion, legislation which abolished something over one hundred and twenty-five commissions, boards and other public officials. It is a good general assembly that will do that.

It has always been an anomaly that the general assembly, a body not charged with the responsibility of expending public money, a body that has had nothing to do with the administration in detail, even if it had all the facilities, independently of the executive, should pass the appropriation bills. The whole theory, since the House of Commons has had power to vote supplies, was that it might be a check upon the arbitrary exercise of power by the executive. It was never assumed that any executive, whether king, president or governor, would expend less money than it was to the interest of the people that he should expend. But appropriations had been made in all self-governing countries by the legislative body in order that there might be a check upon extravagant expenditures by the executive. It ought not to be necessary to guard against the expenditure of too little money by the governor by a constitutional requirement. Yet in order to make the budget which is prepared by the executive absolutely secure, there should be an amendment such as was contained in your rejected New York constitution, providing that the executive budget should be acted upon before any other appropriation bill is considered.

Of course many men believe that a budget is not necessary, because the people are always willing to vote all the money that is required for useful public purposes. I think that is true, but it is human nature that the better you know how much money you are going to have to expend, the more you will get for it. That applies to corporations and public bodies as much as to individuals. Therefore, until you have ascertained what you can reasonably raise, you are not in a position to apportion that money intelligently among the expenditures, and whenever you find a business man who runs away from his balance sheet, you find a business man with a receivership coming very soon. That is what we have been doing with our public expenditures all these years. The mere fact that we are great and rich and powerful makes it all the more important that we do ascertain, and ascertain before we begin to make up a budget, what we ought to expend, and what we reasonably can expend during the following year.

The time has come in this country when we ought to begin to lay down a definite and concrete program for the financing of this war. We know now about how much money we can raise by direct taxation. It ought to be possible, in the light of the experience we have had during these three loans, for the treasury officials and the financial powers of the country to ascertain how much money can be raised from the issue of bonds each year, indefinitely. When that is done the amount will certainly be large enough to finance this war indefinitely, and when the people have reconciled themselves to that, we have gone a long way towards winning the war. In other words, if we find that in addition to what we raise by direct taxation we can safely raise only ten billion dollars a year by the issue of bonds, we shall find that that ten billions, with the other billions that we are raising by direct taxation, will be enough—we will make it enough—to finance this war indefinitely. When we have adopted the principle of universal military service, and when we have adopted a definite and concrete financial program, we shall have served notice upon the people of Central Europe that we are going to fight this war out for the next century, if necessary, and we shall have gone a long way toward winning it.

## THE ILLINOIS CIVIL ADMINISTRATIVE CODE<sup>1</sup>

CHARLES E. WOODWARD  
Ottawa, Illinois

COMMENCING about 1911 the states began a serious study of their administrative systems. The development of state governments, prior thereto, was along the line of popular control and the preservation of the balance between legislative, executive and judicial departments. In the meantime, however, economic conditions, social reorganization and growth, the increase of population, the advancement of science and the progress of humanity cast upon the states increased burdens and responsibilities. To discharge the increased duties, states resorted to boards, bureaus and commissions. The period between legislative sessions created new conditions demanding the oversight and control of government agencies. Hence, incongruities and absurdities resulted. Separate and disjointed authorities, acting without reference to one another, or to any central authority, were the rule and not the exception. The result was chaos, confusion, duplication of work, overlapping of duties and division of responsibility.

Out of this lack of system new problems emerged. The questions of energy and efficiency of government began to attract attention. The chaotic condition in Illinois received the serious consideration of the legislature in 1913 when a Committee on Efficiency and Economy was constituted

to investigate all departments of the state government, including all boards, bureaus and commissions which have been created by the general assembly, such investigations to be made with a view of securing a more perfect system of accounting, combining and centralizing the duties of the various departments, abolishing such as are useless, and securing for the State of Illinois such re-organization as will promote greater efficiency and greater economy in her various branches of government.

The committee employed experts and made a thorough study and survey of the details of the state government. It made its report

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<sup>1</sup>Read at the National Conference on War Economy, June 5, 1918.

and recommendations to the general assembly in 1915. The committee caused bills to be introduced in the general assembly in 1915 to carry into effect the recommendations of the committee; but, with the exception of a bill revising the law in relation to state contracts, none of the bills passed either house of the general assembly. In his pre-primary campaign for the Republican nomination for governor, Colonel Lowden, in his numerous speeches, laid stress upon the illogical organization of the state government, and insisted that, if state governments were to be respected, their numerous and over-lapping boards must be consolidated, and the budget system of appropriations and expenditures must be substituted for the hap-hazard system then existing.

In his inaugural message Governor Lowden said:

Administrative agencies have been multiplied in bewildering confusion. They have been created without reference to their ability economically and effectively to administer the laws. Separate boards govern the penitentiaries, the reformatories, and the educational institutions. Several boards and commissions have charge of matters affecting the agricultural interests. Administration of laws affecting labor is parceled out among numerous agencies, including several boards having jurisdiction of mining problems and several free employment agencies, each independent of the other. Our finance administration is chaotic, illogical and confused.

The administration of the health laws is divided between boards and commissions, with no effective means of co-ordination. Our educational agencies are not harmonious. Over one hundred officers, boards, agencies, commissions, institutions, and departments are charged with the administration of our laws. No systematic organization exists, and no adequate control can be exercised. Diffusion rather than concentration and responsibility marks our system.

One of the imperative needs of the state is the consolidation of its multiplied agencies into a few principal departments. The governor is held responsible for the conduct of the state government. His executive functions should be discharged through a limited number of agencies over which he may exercise actual control. Under the present system of confusing perplexity, the governor cannot exercise the supervision and control which the people have a right to demand.

In the meantime, work had been commenced on the necessary bills to vitalize into law the ideas expressed by Governor Lowden both in his campaign and in his inaugural message. The facts gathered by the Efficiency and Economy Committee, and embodied in its report, constituted the basis for the preparation of legislative measures. In general, the committee recommended the re-organi-

zation and consolidation of more than one hundred separate offices, boards, bureaus and commissions into ten executive departments. Following its general recommendation, the committee made specific recommendations as to the constitution of the several proposed departments.

The specific form of organization recommended by the committee was, after mature deliberation, rejected as not conducing to either strength, harmony or unity of administration. For example, the committee recommended the creation of a department of finance, under a state finance commission, consisting of a state controller, a tax commissioner, a revenue commissioner and the auditor of public accounts and the state treasurer *ex officio*.

Each official was to be in charge of a particular division and each having specific statutory duties to perform. Again, the committee recommended the establishment of a department of public works and buildings

under a public works commission of three members, one to be commissioner of highways, one commissioner of waterways and one fish and game commissioner; with bureaus for each of these services and also other bureaus under the superintendent of buildings and grounds, the superintendent of state parks and the state art commission.

The specific recommendations contemplated bureaus within bureaus, and divisions within divisions. In some instances, an individual was placed at the head of a department, and in others a board or commission was made the directing head. Statutory duties were devolved upon subordinate officers and boards within a department. For all practical purposes the several offices, boards and bureaus were independent. As the scheme was outlined, no department would have an actual and responsible head having control of all the activities of his department.

It occurred to Governor Lowden, therefore, that while the general conclusion of the Efficiency and Economy Commission was valid and should be incorporated into law, yet the specific methods recommended were not only inexpedient, but detrimental to administrative efficiency. It seemed to him that the central idea of the report could be carried into effect by a single enactment. The bill, as finally drafted, proceeded upon the theory of the administrative reorganization of the several departments. It abolished numerous independent offices, bureaus, boards and commissions. It sub-

stituted in their place nine departments, in each of which is a responsible head known as a director. Each director is vested with ample authority of supervision and control. Subordinate division heads act under the great department leader. The department leaders labor together in co-operation with the governor as the supreme head. State activities are fused and welded into one coherent mass. Dealing with functions, the act simply consolidates governmental agencies. No additional powers or duties were given to the governor. No new duties on the part of the citizen were created. The substantive law remains the same. Only the instrumentalities through which it is enforced are changed.

Our legislators have too long ignored a vital principle in the enactment of administrative statutes. Administrative statutes are cluttered up with great elaboration of detail as to the means by which an administrative officer shall discharge his duties. Pursuing this theory, the legislature assumes the duties, without the responsibilities, of administration. The result has been that administration as well as legislation has been written into our statute law. The extreme of popular control was secured; energy and efficiency of administration were sacrificed.

The Illinois Civil Administrative Code is elastic and flexible. It omits details as to the inter-relationship between the offices which it creates. It enumerates broad general principles by which the government shall be administered. For instance, it provides that the department of finance shall "prescribe and require the installation of a uniform system of bookkeeping, accounting and reporting for the several departments," but does not attempt to enumerate any further rules on that subject for the guidance of the head of the department. It prescribes no duties for any subordinate executive officer. The act proceeds upon the theory that the work of each department will necessarily fall into broad, general classifications or divisions. It is assumed that the director of the department will organize his work and assign his subordinate officers to such duties as the exigencies of business may from time to time require. By this means not only are elasticity and flexibility secured, but responsiveness and responsibility of administration are assured.

The Civil Administrative Code organizes the civil governmental agencies under the jurisdiction of the governor, with the exception

of the civil service commission and of certain temporary boards, into nine departments as follows:

- (1) The department of finance
- (2) The department of agriculture
- (3) The department of labor
- (4) The department of mines and minerals
- (5) The department of public works and buildings
- (6) The department of public welfare
- (7) The department of public health
- (8) The department of trade and commerce
- (9) The department of registration and education.

The officers and boards under the civil administrative code are divided into three classes, namely, (1) executive officers; (2) quasi-judicial or quasi-legislative boards; and (3) non-executive boards.

In the survey of the activities of the state government it was found that there were certain boards or commissions which discharged quasi-judicial or quasi-legislative functions. In the discharge of functions which are purely executive, the fundamental principles of government dictate that one man should have the entire responsibility. However, in the discharge of functions which are quasi-judicial or quasi-legislative, it is essential that the opinion of a reasonable number of men, acting as an entity, should be procured. Hence in the construction of the Civil Administrative Code all functions which are primarily quasi-judicial or quasi-legislative are committed to the proper board or commission. The quasi-judicial or quasi-legislative boards are as follows: the food standard commission in the department of agriculture, composed of three persons; the industrial commission in the department of labor, composed of five persons; the mining board in the department of mines and minerals, composed of five persons; the miners' examining board in the department of mines and minerals, composed of four persons; the public utilities commission in the department of trade and commerce, composed of five persons; and the normal school board in the department of registration and education, composed of ten persons. Each board acts as an entity. While the director of mines and minerals is a member of the mining board, and the director of registration and education is a member of the normal school board, yet each quasi-judicial or quasi-legislative board exercises its quasi-judicial or quasi-legislative func-

tions without any supervision, direction or control by the director of the department. Each such board, however, is a component part of the department to which it belongs, and is not independent of the general system of finance and budget to which all officers under the code are subjected. Both the executive officers and the members of the quasi-judicial and quasi-legislative boards, excepting two food standard officers, the members of the mining board, and the members of the normal school board, are required to devote their full time and attention to the duties of their several offices. For this purpose each receives a fixed annual compensation.

Many questions of policy and expediency are presented for solution in an executive department. To assist and advise the director of the department and the governor in matters of broad policy of administration, it was deemed wise to make provisions for advisory boards. Hence advisory boards were created as follows: the board of agricultural advisers in the department of agriculture, composed of fifteen persons; a board of state fair advisers in the department of agriculture, composed of nine persons; a board of Illinois free employment office advisers in the department of labor, composed of five persons; a board of local free employment office advisers in the department of labor, composed of five persons from each employment office; a board of art advisers, a board of water resource advisers, a board of highway advisers, a board of parks and buildings advisers, each in the department of public works and buildings, and each composed of five persons; a board of public welfare commissioners in the department of public welfare, composed of five persons; a board of public health advisers in the department of public health, composed of five persons; a board of natural resources and conservation advisers, composed of seven persons; and a board of state museum advisers, in the department of registration and education, composed of five persons. The object of the advisory boards as above indicated was to put at the service of the state the expert skill of persons who were qualified in their particular lines of endeavor but who, though unable to devote their entire time and attention to the business of the state, would, as a matter of public duty, put their skill and professional experience at its disposal. The members of the several advisory boards receive no compensation.

One of the objects intended to be accomplished by the code is to secure a responsive and responsible administration. The governor



can discharge the varied activities committed to him by the constitution and the statutes only through the instrumentality of subordinate officers. He should be given full power to succeed or to fail. At the very moment when he takes the oath of office, he should be given full control of all executive agencies responsible to him, in order that his administrative policy may be guided and directed by men in sympathy with his program. Hence the administrative code provides that the term of office of all officers created by it, excepting the members of the normal school board, shall commence on the same day as that of the governor. The term of each officer, therefore, with the exception noted, is four years. The term of office of the members of the normal school board, other than that of the director, is six years, three members retiring each two years. Upon taking the oath of office, therefore, the governor is in full and complete charge of all of the activities of his administration, and can institute at once, and without embarrassment, the executive policies which he desires to be worked out.

Under the practice prevailing prior to July 1, 1917, it was difficult in many cases for the citizen having business with any board or commission to ascertain the business address of such board or commission. Some were located in Springfield, some in Chicago, and some throughout the smaller cities of the state. The code changes all this. Any citizen having business with any of the executive departments under the governor can transact such business through the central office at Springfield. Each department is required to maintain at the capital a central office, but for the discharge of certain activities of its department, it may maintain branch offices in other parts of the state. In this way it is intended to work out a plan by which thousands of dollars may be saved by the state on account of the rent of offices, not only in Chicago but elsewhere.

Closely allied with the subject of centralized offices at Springfield is that of co-operation and co-ordination of work as between departments. Not only may the great number of offices rented for the use of the several departments be greatly reduced, but the employes of a given department may be used to discharge functions pertaining to other departments, thus reducing the number of employes, and increasing the efficiency of administration. Inasmuch as the code does not revise and codify the statutory law

pertaining to the several departments, but leaves the substantive law just as it is, to be enforced by the proper department, it was inevitable that there should be overlapping and duplication of functions. By the provisions of the code, providing for co-operation between departments, this duplication, in the practical administration of laws, is to a large extent done away with, without the necessity of any subsequent legislation.

In addition to the provision relative to co-operation between departments, the code creates a strong centralized purchasing agency in the department of public works and buildings. Prior to July 1, 1917, each board, commission or officer purchased his own supplies. Under the code, the department of public works and buildings is required to make purchases for all departments, thus affording a means by which the state may not only standardize its purchases, but effect a great saving in money by reason of purchasing in large quantities.

The department of finance is probably the most important of the new departments. Roughly speaking, the functions of the department of finance may be classified as follows: (1) To prescribe and install a uniform system of bookkeeping, accounting and reporting; (2) to examine into the accuracy and legality of the accounts and expenditures of the several departments; (3) to examine and approve, or disapprove, all bills, vouchers and claims of the several departments; (4) to prepare and report to the governor estimates of the income and revenues of the state; (5) to prepare and submit to the governor a state budget; and (6) to formulate plans for the better co-ordination of departments.

Through this department a centralized control of the expenditures made by agencies responsible to the governor is effected.

While the department of finance has no direct control over the expenditures made by any department other than those created by the Civil Administrative Code, yet it is required to make a study of the whole field of governmental needs, and to prepare and submit to the governor, to be by him submitted to the general assembly, a state budget, embracing therein the estimated revenues, and the needs, not only of the several departments under the code, but of all other agencies of the government other than the general assembly. The budget of the department of finance will disclose the needs of the state, together with full information based upon thorough and detailed study. When the next general assembly con-

venes it will have before it, for the first time in its history, adequate, classified and detailed information upon which appropriations may be made with intelligence.

The department of finance was practically a new conception. It took over no work performed by any other board or commission. Not so with the other departments. The department of agriculture is charged with the exercise of the powers and duties vested by law in the following: (1) The board of live stock commissioners; (2) the state veterinarian; (3) the stallion registration board; (4) the state inspectors of apiaries; (5) the state game and fish commission; (6) the state food commissioner; (7) the state entomologist; (8) the humane agents; (9) the state laboratory; and (10) the state fair board after January 1, 1919. It is also charged with certain affirmative duties pertaining to the procuring and disseminating of knowledge relative to agricultural interests.

The department of labor is charged with the exercise of the powers and duties vested by law in the following: (1) The commissioners of labor; (2) the free employment offices and local free employment offices; (3) the chief inspector of private employment agencies; (4) the chief factory inspector; (5) the state board of arbitration and conciliation; (6) the industrial board. (7) It is also charged with the collection of data and information relative to labor and the dissemination thereof.

The department of mines and minerals is charged with the exercise of the powers and duties vested by law in the following: (1) The state mining board; (2) the state mine inspectors; (3) the miners' examining commission; (4) the mine fire fighting and rescue commission; (5) the Illinois miners' and mechanics' institutes.

The department of public works and buildings is charged with the exercise of the powers and duties vested by law in the following: (1) The state highway commission; (2) the canal commissioners; (3) the rivers and lakes commission; (4) the Illinois waterway commission; (5) the Illinois park commission; (6) the Fort Massac trustees; (7) the Lincoln Homestead trustees; (8) the Lincoln Monument commissioners; (9) the superintendent of printing; (10) the supervising engineer; (11) the state art commission; (12) the state inspector of masonry. The office of the state architect is abolished, and the policy of providing for a supervising architect is substituted. The department of public works

and buildings is given supervision over all public monuments and memorials erected by the state.

The department of public welfare is charged with the exercise of the powers and duties vested by law in the following: (1) The board of administration, which had jurisdiction over the charitable institutions of the state, consolidated by the act of 1912; (2) the state deportation agent; (3) the state agent for the visitation of children; (4) the Illinois penitentiary; (5) the Southern Illinois penitentiary; (6) the Illinois state reformatory; (7) the board of prison industries; (8) the board of classification; and (9) the board of pardons. Under the department of public welfare the administration of all the charitable institutions and of all the penal institutions is consolidated.

The department of public health is charged with the exercise of the powers and duties vested by law in the state board of health, excepting the registration of physicians, midwives and embalmers. Other broad and general powers relating to health and sanitation are vested in this department.

The department of trade and commerce is charged with the exercise of the powers and duties vested by law in the following: (1) The public utilities commission; (2) the insurance superintendent; (3) the grain inspection department; (4) the inspector of automatic couplers; (5) the state fire marshal; and (6) the statute in relation to weights and measures.

The work of the department of registration and education falls under three principal classifications. Under it are consolidated for administrative purposes the five normal schools. The principal work of the department will be the examination of applicants for the trades and professions. It will exercise the license powers vested by law in: (1) The board of veterinarian examiners; (2) the board of examiners of horseshoers; (3) the state board of examiners of architects; (4) the state board of examiners of structural engineers; (5) the state board of health; (6) the state board of pharmacy; (7) the state board of dental examiners; (8) the state board of nurse examiners; (9) the state board of optometry; and (10) the state board of barber examiners. Another function of the department of registration and education is to act as the scientific and investigating body for the other departments. To that end its educational activities may be roughly classified as relating to conservation and development of natural

resources, the study of the zoology and botany of the state, the maintenance of a state museum for the collection and preservation of objects of scientific and artistic value, and the study of entomology, water resources and geology.

The code is not so comprehensive as it should be. It was found impractical and inexpedient to make the consolidation act as comprehensive as the theory of administrative consolidation would permit. The theory was modified by the constitutional provision creating the independent state offices of secretary of state, auditor of public accounts, state treasurer, superintendent of public instruction, and attorney general, and prescribing to these officers certain duties.

It was further modified by the provisions of the state statutes relating to the election by the people of a board of equalization, and of trustees of the University of Illinois. However, as above noted, it consolidates into one coherent system practically all the activities for which the governor is responsible. It is safe to say that the Illinois Civil Administrative Code constitutes a radical innovation in state administration. While necessarily omitting certain state activities, it is the first comprehensive scheme enacted into law to render our state government stronger and more efficient.

## THE FIRST STATE EXECUTIVE BUDGET<sup>1</sup>

EMERSON C. HARRINGTON

Governor of Maryland

THE Executive Budget was established in Maryland by an amendment to our state constitution. The legislature of Maryland at its regular session of 1916 passed a bill amending the constitution of the state so as to provide for an Executive Budget for Maryland, and as required under our constitution this amendment was submitted to the people of our state for their approval or rejection. At the general election of 1916 it was approved by the people by an overwhelming majority, and therefore all appropriations thereafter had to be made in accordance with the Budget Amendment. The manner of passing appropriations, leading as it did to appropriations by the legislature of 1914, for the fiscal years intervening from one legislature to another, of over \$1,500,000 in excess of the revenues for the same time, at a time when the governor was of one political faith and the legislature of another, had caused both political parties to make the fiscal condition of the state the leading issue, and thereby both of the two great political parties declared in favor of an Executive Budget. The result was that the passage of the amendment by the legislature and its ratification by the people was proposed and carried most opportunely. Our legislatures meet every two years, so that the real test or try-out occurred at the last legislature, the legislature of 1918.

I presume the manner of appropriating money by the legislatures of the different states has heretofore been similar to our own, that the Finance or Ways and Means Committee would not bring out the bill until almost the last moment. Then the bill carrying all the expenditures for the state departments and the state government was finally passed in the last hours under a suspension of the rules, generally allowing each senator or delegate practically what he wanted for his own county or locality, regardless of the amount appropriated, and leaving it to the executive to do the paring. In our state the executive, it is true, could cut down or

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<sup>1</sup>Read at the National Conference on War Economy, June 5, 1918.

veto the separate items of an appropriation bill, but I understand that in many states even this cannot be done. The members of the two committees appropriated this money upon no scientific or expert plan and had not before them any synopsis or summary either of the revenues or their contemplated expenditures. Largely it was a question of log rolling and of senatorial or delegate courtesy. In our state we had also a system of continuing or annual appropriations, which when made and marked annual would go on forever as appropriations without any further legislative action. Some of these appropriations of ours were of over 100 years' standing, and most of them were not known to exist by the average member of the legislature. As a preliminary to all budget making the legislature of 1916 wiped out all continuing appropriations of every kind or character whatsoever, so that no money could be available except what was specially stated in the appropriation bill.

Our Budget Amendment was drawn after the most careful consideration by a Budget Committee which I appointed, with President Goodnow, of Johns Hopkins University, as chairman.

I will briefly state the points of this amendment:

Section 52. The general assembly shall not appropriate any money out of the Treasury except with the following provisions:

*Sub-Section A:* Every Appropriation Bill shall be either a Budget Bill, or a Supplementary Appropriation Bill, as hereinafter mentioned.

*Sub-Section B:* Within twenty days after the convening of the general assembly (except in the case of a newly elected governor) and then within thirty days after his inauguration (unless such time shall be extended by the general assembly for the session at which the Budget is to be submitted, the governor shall submit to the general assembly two budgets, one for each of the ensuing fiscal years. Each budget shall contain a complete plan of proposed expenditures and estimated revenues for the particular fiscal year to which it relates; and shall show the estimated surplus or deficit of revenue at the end of such year. Accompanying each budget shall be a statement showing: (1) the revenues and expenditures for each of the two fiscal years next preceding; (2) the current assets, liabilities, reserves and surplus or deficit of the state; (3) the debts and funds of the state; (4) an estimate of the state's financial condition as of the beginning and end of each of the fiscal years covered by the two budgets above provided; (5) any explanation the governor may desire to make as to the important features of any budget and any suggestion as to methods for the reduction or increase of the state's revenue.

*Second.*—Each budget shall be divided into two parts, and the first part shall be designated "governmental appropriations" and shall embrace an

itemized estimate of the appropriations: (1) for the general assembly as certified to the governor in the manner hereinafter provided; (2) for the executive department; (3) for the judiciary department as provided by law, certified to the governor by the comptroller; (4) to pay and discharge the principal and interest of the debt of the state of Maryland in conformity with Section 34 of Article III of the constitution, and all laws enacted in pursuance thereof; (5) for the salaries payable by the state under the constitution and laws of the state; (6) for the establishment and maintenance throughout the state of a thorough and efficient system of public schools in conformity with Article VIII of the constitution and with the laws of the state; (7) for such other purposes as are set forth in the constitution of the state.

*Third.*—The second part shall be designated "general appropriations," and shall include all other estimates of appropriations.

The governor shall deliver to the presiding officer of each house the budgets and a bill for all the proposed appropriations of the budgets clearly itemized and classified; and the presiding officer of each house shall promptly cause said bill to be introduced therein, and such bill shall be known as the "Budget Bill." The governor may, before final action thereon by the general assembly, amend or supplement either of said budgets to correct an oversight or in case of an emergency, with the consent of the general assembly, by delivering such an amendment or supplement to the presiding officers of both houses; and such amendment or supplement shall thereby become a part of said budget bill as an addition to the items of said bill or as a modification of or a substitute for any item of said bill such amendment or supplement may affect.

The general assembly shall not amend the budget bill so as to affect either the obligations of the state under Section 34 of Article III of the constitution, or the provision made by the laws of the state for the establishment and maintenance of a system of public schools, or the payment of any salaries required to be paid by the state of Maryland by the constitution thereof.

The general assembly may increase or diminish the items relating to the general assembly and may increase, but not decrease, the items therein relating to the judiciary. In all other respects the legislature cannot increase any items of appropriation, but may strike out or decrease, with one exception, that is, it cannot decrease the salary of a public official during his legal tenure of office.

The budget bill as then passed by both houses becomes a law without the governor's signature.

The governor or any one of the department heads designated by the governor has the right to appear and be heard in respect to any budget bills while they are being considered, and still further



it is made his duty to do so if requested by either house of the legislature, to answer inquiries relating thereto.

*Sub-Section C; Supplementary Appropriation Bills:* Neither house shall consider other appropriations until the Budget Bill has been finally acted upon by both houses, and no such other appropriation shall be valid except in accordance with the provisions following: (1) Every such appropriation shall be embodied in a separate bill limited to some single work, object or purpose therein stated and called herein a supplementary appropriation bill; (2) Each supplementary appropriation bill shall provide the revenue necessary to pay the appropriation thereby made by a tax, direct or indirect, to be laid and collected as shall be decided in said Bill.

A majority in each house of the whole number elected is required to pass a supplementary bill and the yeas and nays must be recorded. The requirement for the revenue to be provided in the bill places the responsibility, whether the tax be a direct or an indirect one. Moreover, all supplementary bills are to be presented to the governor and are subject to his veto under the same conditions as now apply.

Nothing, however, shall be construed to prevent the legislature, under the same conditions and qualifications as now, from passing any bill to pay for any obligation of the state of Maryland under the provisions of section 10 of article 1 of the Constitution of the United States. Should the budget bill not be finally acted upon within three days before the expiration of the regular session, the governor can by proclamation extend the term, but no other matter save the budget bill shall be considered except as to its cost.

Likewise, the governor is given full power to require all departments and heads to report to him and all institutions applying for or receiving state aid to give such itemized estimates and information as, and in such form as he may desire.

The governor has the power to provide for public hearings and to compel attendance of all necessary parties.

The legislature may enact such laws as may be found necessary from time to time to carry out the provisions of this constitutional amendment.

In the case of any inconsistency between any provisions of this amendment and any other of the constitution, the provision of this amendment shall prevail. Nothing in the amendment, however, shall effect any obligations as to the public debt as provided for in section 34 of article 10 of our Constitution; and the governor may as heretofore call an extra session of the legislature for the same

purposes as now provided, and in such a case the legislature can consider any emergency appropriation or appropriations.

*In our budget system, the items of the budget can be reduced or eliminated, but not increased by the legislature. This limitation is fundamental in my opinion for any sound budget system.* It will be noticed that the governor has to include the salaries provided for by law for the public officials, also the salaries and expenses of the judiciary have to be included as certified to him by the controller as fixed by statute, and third, that the legislature has control of its own running expenses, the governor having to put into the budget what the presiding officers of the legislature estimate as the proper expenditures for the succeeding legislature. The idea was that the governor should not have the power to reduce salaries fixed by the constitution or by law, and that the independence of the judiciary and the legislature as to their own expenses should be maintained.

Now for the operation of the Executive Budget. The legislature of 1916 had not specially provided for any aid for the governor in preparing the budget, nor had they appropriated any special sum for that purpose, but the governor had a very fair contingent fund which was available for such a contingency, and as the present governor had been the controller of the state for the four years previous to his election as governor he had the advantage of intimate knowledge of the fiscal affairs of the state and of the needs and the necessities of the different departments. He was, therefore, enabled by the help of Mr. A. E. Buck, recommended by Dr. Beard of the Bureau of Municipal Research of New York city, together with his own office force, to complete the budget practically within the time prescribed by the constitutional amendment.

Our legislature of 1918 made appropriations for the two following fiscal years, the first beginning October 1, 1918, and ending September 30, 1919, and the second beginning October 1, 1919, and ending September 30, 1920, called with us the fiscal years 19 and 20.

First we prepared and forwarded to all state institutions or departments certain blanks to be filled in by the proper authorities and requiring them to furnish, first, all their receipts and expenditures for 1917, giving the names and positions of all employes, and, second, their requirements for 1919 and 1920, under proper headings and in the requisite detail.

On receipt of these reports, wherever we deemed hearings necessary for the proper information of the governor, we requested the necessary officials to come before us and bring whatever books or information we desired, and in certain instances we detailed the state auditor for certain information. On the other hand, all state institutions or departments desiring a hearing were given a full opportunity to be heard; likewise all persons interested in any appropriation or any proposed legislation requiring appropriations.

We have heard a criticism that these hearings ought to be compulsory on the part of the governor wherever asked for by any department or by any person interested. I see no real objection to this, although I am confident that such objection is only a critical one and is entirely unnecessary in procuring proper hearings by all persons interested.

The governor, after proper hearings and proper investigation, fills in his own allowances after every proposed item of salary or expense for all the departments or state institutions.

In Maryland the state has been appropriating money quite largely to what we call "state-aided" or benevolent associations or institutions. We have the Board of State Aid and Charities, whose duty it is carefully to examine each detail of these institutions and make a report to the governor with its recommendations prior to the assembling of the legislature. Their report gives in detail the assets and liabilities of the institutions, as well as all details of their service. With this report before him the governor allowed each of the hospitals a per capita allowance for each free hospital day and other institutions in accordance with their free work done.

Attached to each of these budgets was an itemized statement of the receipts and expenditures for 1917 and the estimated receipts and expenditures for 1918, showing the surplus carried over from 1917 to 1918, and the estimated surplus to be carried over from 1918 to 1919. Likewise accompanying the budget was a detailed statement of the estimated revenues for the fiscal year 1919 and a statement of the proposed expenditures as allowed by the governor, showing the surplus to be carried over from the fiscal year 1919 to the fiscal year 1920, provided the estimates of the receipts for the fiscal year as made by the governor should be correct, and the allowances as made by the governor in expenditures were not changed. There was also a statement showing the

estimated receipts for 1920, and the governor's allowances in expenditures for the same year, showing the surplus which would be brought down if these estimates were correct and the allowances remained intact. By this plan, of course, there could be no deficiency if the estimates of receipts were correct, for in that case the surplus might be increased by the action of the legislature, but no deficit could occur.

Now what are the defects of this plan? One of the particular criticisms I have to make is one not of the system, but of the past legislature. There were so many questions of a partisan character, so many questions of importance which were so hotly contested, that in neither the senate nor the house did the committee devote sufficient time in the consideration of the budget to act upon it properly or intelligently, particularly the Ways and Means Committee of the house. What had taken the governor three months for preparation after an intimate acquaintance of four years, the Ways and Means Committee passed upon in practically two or three sittings, each of very short duration. The Finance Committee of the senate approved the governor's budget appropriating about \$12,000,000 *in toto*, and the Ways and Means Committee all except two or three items, the legislature passing the Budget Bill after striking out but one item of \$2,000. The governor would naturally feel complimented that the legislative branch of the government cut down his appropriation by only \$2,000 out of \$12,000,000 appropriated, but as a matter of fact, the efficiency of the Executive Budget plan in large part depends upon an intelligent revision of the governor's allowances made by the legislature after a most careful and patient study and consideration of the different items of appropriation. Under our amendment the governor and all department heads are subject to the proper examination on all matters of appropriation, but when a legislature confines itself to a single item of appropriation as a subject of criticism it is not meeting the obligations imposed by the Budget Amendment. With us the result has been that the details of every department are open to the public. It remains in book form subject to scrutiny for future legislatures. The different departments get accustomed to asking for appropriations after a very careful and detailed estimate of their requirements, and they feel a greater responsibility in keeping within the budget allowances.

We did not desire to take away every opportunity to meet unforeseen contingencies, so that in our Budget Bills we have permitted the different department heads and institutions to have some flexibility in their expenditures by filing a different statement of proposed expenditures, which becomes effective upon the approval of the governor, but the sum total cannot be exceeded.

The Budget Bill provides :

That the items and amounts which hereinafter follow the sums appropriated, and which are, respectively, entitled "Schedule," do not constitute appropriations, but represent the initial plan of distribution and apportionment of the appropriations to which they, respectively, refer. Each appropriation shall be paid out only in accordance with the schedule therefor, if any, unless such schedule be amended in the following manner: any department, board, commission or officer may at any time submit in writing to the governor an amended schedule for the distribution and apportionment of the appropriations made to it or him, or any unexpended balance thereof, different from the manner set forth in the schedule contained in this act. The governor may himself make such an amended schedule, if the same be necessary, with respect to the appropriations for the Executive Department. If the governor shall make such an amended schedule with respect to the appropriations for the Executive Department or if he shall approve an amended schedule when submitted to him as aforesaid, then he shall transmit the same with his certificate of approval to the comptroller, and thereafter the appropriation, or the unexpended balance thereof, shall be paid out in accordance with such amended schedule. Any amended schedule, so submitted to the governor may be withdrawn and amended to meet any objections of the governor, and then resubmitted. Any such amended schedule may be again amended, at any time, in like manner and with like effect. All amendments and schedules thus made or approved by the governor shall be reported by him to the next session of the general assembly.

The legislature of 1918 kept its own expenditures down to estimated expenditures and well within the appropriation of 1916, and no extra bills for the fiscal years 1919 and 1920 were passed. There was a total absence of lobbying in the interest of appropriations or of personal solicitations by departments or institutions upon the members of the legislature. The state institutions and departments and the state-aided or benevolent institutions accepted the allowances of the governor without any protest.

The chief difficulty we had in making up a budget in Maryland was that some of our departments, such as the Insurance Department, the State Accident Commission, the Conservation Commission and the Automobile Commission, were accustomed to collect

their own revenues and pay their own expenses and turn over balances to the treasurer. There could not be an effective budget unless all of the revenues were paid into the general treasury and all expenditures made therefrom, so it became necessary for legislation to be passed turning all the receipts into the general treasury, which was done.

Another embarrassment, equally great to one kind of a budget as to another, is that some of our institutions, such as our insane asylums, not only get an appropriation from the state, but a proportional per patient appropriation from Baltimore city and from the different counties. In our budget in such cases we have fixed the salaries and expenses in detail to be allowed, and with their statement of the revenues from the counties and from other sources, such as their farms, the state has appropriated the difference between such total and the total of the expenditures allowed for salaries and expenses. In my opinion it would be still better for these different revenues to be paid over to the state and for the entire appropriation to be paid direct from the treasury of the state.

Furthermore, where a proper contingent fund is not placed at the disposal of the governor for proper investigations of the different institutions or departments, the necessary aid to the governor for assisting in the preparation of the budget should be provided.

In our state the Board of State Aid and Charities is appointed by the governor and reports to him. It makes a very careful examination of all state-aided institutions and all state institutions. The state auditor's department is likewise available to the governor for any investigations. I can readily conceive, however, that if someone not well acquainted with the finances of the state and the workings of the departments should be elected governor, the burden of the executive would be a most difficult and troublesome one. After the first budget has been made the following budgets should not be so difficult, as the forms and other details of the departments are then so fully and completely disclosed, but the greatest difficulty which I conceive in the way of an Executive Budget is providing for any proposed new departments or commissions, or any new projects, the wiping out of any departments or useless offices, or the consolidation of any two or more departments. But considering the trend of modern politics, where the

governor is supposed to take the initiative and to be the real leader during his administration, I believe these difficulties can be met and overcome. At the session of 1918 wherever I advocated a new department I put the necessary appropriation in the Budget Bill, making the appropriation contingent upon the passage of the necessary legislation, and had introduced the necessary legislation as an administration measure. Where I was opposed to a department or office not called for by the constitution, but created by law, I put in the appropriation but in my message to the legislature I recommended the abolition of the office or department and the rejection of the appropriation.

There are four kinds of budgets which have been advocated: A budget by the Board of Public Works, a budget by a Budget Commission, an Executive Budget and a Legislative Budget. "A budget by the Board of Public Works would have the disadvantage of dissipating personal responsibility, and would also not necessarily place party responsibility." I think the same objection would apply to a Budget Commission. Every plan I have so far seen for a Legislative Budget fails to meet the full requirements of a real budget in that it limits no responsibility, it carries with it no authority or prestige, it constitutes members of the legislature a permanent and paid commission to prepare and submit a financial plan to the legislature, with no restrictions, and allows the legislature to act quite independently of the commission. It permits the legislature to select some of their own number to become a paid commission to prepare a budget plan, and if enacted into law, this plan would more surely perpetuate invisible and irresponsible government. If the only purpose of a Legislative Budget, a Commission Budget or any budget is simply to place certain information before a legislative body, I respectfully submit that in practice the desired ends will not be achieved.

President Taft urged the Executive Budget in a special message to Congress, February 26, 1913. The New York Constitutional Convention endorsed it by a vote of 132 to 4. It has been advocated by the Chamber of Commerce of the United States, composed of the principal commercial bodies of the country. Mr. Fitzgerald, chairman of the Committee on Appropriations of the House of Representatives, while once opposed, on June 26, 1915, went before the New York Constitutional Convention at Albany and put himself on record as favoring the Executive Budget. The reasons

given by him are so apt that I take the liberty of quoting him in part. He said:

We ought to have some way in the system of our government to fix direct responsibility and you cannot fix responsibility if the power is too widely scattered. I would put it in the executive. I would make him responsible at the outset. Some persons object that we should not deprive the representatives of this right to loosen up the purse strings, but the universal condition in this country today is not what must safeguard the rights of the people to get money for things. The whole curse of our condition is that everybody is doing his utmost to get it and succeeds.

Now if there were some way by which that could be stopped, it would do what is done in the government where they have a responsible government with a budget system.

By an Executive Budget the whole plan is placed before the legislature and before the people of the state at an early date, by one who has had full opportunity for investigation and whose responsibility is in the open, while under the system heretofore prevailing in our state there is no plan; there is no well-defined program; there is nothing to criticise, because these appropriation bills as heretofore made up do not take definite form, until too late for any intelligent or effective criticism. The public does not know their contents and few members do outside of one or two men who control the conduct of the bill.

I know it has been said that the giving of such power to the governor "smacks of monarchy and makes him a dictator." In this country there need be no fear of that, no fear that the Executive Budget will make him an invincible power. Such will not be the case. It can be a case of weakness rather than strength. With our amendment he has to come in the open forum and defend his recommendations. Everything is in the limelight and invisible or irresponsible government will become a thing of the past. There at least need be no fear in my own state of Maryland of any governor becoming a dictator or perpetuating himself in power, for no governor since the Civil War has ever been re-elected in our state.

For the first time in our state the budget gives us a concrete statement of our fiscal condition and a concrete statement of all our revenues and expenditures in every detail. So far I have heard no complaint. The responsibility for expenditures is fully fixed. I am confident that the Executive Budget, in our state at least, has come to stay.



## RESPONSIBLE LEADERSHIP AND RESPONSIBLE CRITICISM<sup>1</sup>

BY FREDERICK CLEVELAND

Secretary, Industrial Service and Equipment Company, Boston

THE permanent good humanity will get from this war will not be a victory of democracy over Prussianism; but a victory of democracy over its own weakness. Prussian "Kultur," like the pneumo-coccus, is dangerous only because its victims are not fit. Democracy has been slack—we may even say slovenly—in its institutional habits. What gives to this war on Prussianism its greatest import is not alone the fact that we must at once so order our lives and adapt our institutions that we may be strong enough to resist attack, but that before we can become strong we must find out the cause of our weakness.

In this quest we may easily be misled. For example: During the last three or four weeks the daily press has carried as news an attack made by ex-President Roosevelt on the Wilson administration. What is featured by Mr. Roosevelt is an alleged attempt on the part of President Wilson, through Mr. Burleson and others, to muzzle the press. These are some of the headlines:

"T. R. Says Administration is Trying to Cover Its Own Weakness."

"Wilson Stifles Honest Criticism."

"Administration Has Used Its Power to Stifle Publicity."

"Constitutional Right of Free Press Denied."

In this colloquy two charges are made: First, that the administration has been weak—that there has been confusion and waste at a time when every ounce of man-power and material resource is needed to win the war. Second, that the President, under the claim of need to exercise military censorship, is using the same methods of repression and control over the press that is practiced by the Prussians.

An appeal is made by Mr. Roosevelt to the underlying ideals of democracy. The assumption which lies back of his criticism is that our executive leadership shall be strong; that the govern-

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<sup>1</sup> Read at the National Conference on War Economy, June 5, 1918.

ment shall not be wasteful; that the executive and his cabinet shall be held to strict account before the public for his every act and proposal. But Mr. Roosevelt's criticism is personal. The idea conveyed to the public is that in his opinion such weakness and waste as has obtained in handling the work of this great war has been due to the personnel of those running the government, and that now it is trying to cover up its own shortcomings.

The significant fact is this: that the one thing this "made-in-Germany" war is doing and will continue to do is to help us to see that in our institution building we have done violence to the very ideals to which Mr. Roosevelt appeals.

To show that our essential weakness is institutional let us remove ourselves from the realm of personal controversy. Let us go back to the Spanish-American War, when Mr. Roosevelt was in authority, first as Assistant Secretary of the Navy, later as a military commander giving orders at the front. At that time there was the same confusion and waste in raising and equipping a small army of 200,000 men that there has been during the last year in raising an army ten times as large.

To appreciate what happened at that time, let us read from one of the most matter-of-fact, painstaking writers of history. Showing the embarrassment under which the McKinley administration labored, Sargent says:

Nearly everything had to be created; clothing, tentage, wagons, ambulances, arms—in fact everything in the way of uniform and equipment—had to be contracted for or manufactured. . . . Wagons, ambulances and horses could not be purchased immediately in sufficient number; great difficulty was experienced in obtaining sufficient canvas to supply the army with tents; and no khaki cloth for uniforms was to be had in the United States. All this resulted, of course, in great inconvenience to the troops. The volunteers had to accept an inferior rifle with black powder; a number of regiments could obtain no tents; the entire army was short of transportation; and many soldiers had to go to the tropics and fight in winter clothing.

The confusion in leadership was appalling—and what is more, profiteering had a suggestion of venality that today is almost wholly lacking. There was more of the spirit of gang loyalty and less of the spirit of individual devotion to a great national cause. There was more of the confusion and waste and wantonness of the Civil War. But this confusion of leadership and administra-

tion was not to be charged to lack of quality in President McKinley—not even to Mark Hanna.

Consider the kind of leadership we then had. On the supply side of the military establishment there were twelve different bureaus or offices, which had been created—not by the president as the responsible institutional military leader for his assistance and guidance—but established by Congress. Congress using its legislative powers had violated the spirit of the Constitution, which makes the president, as commander-in-chief of the army and navy, responsible to the people. And it set up against the president a bureaucratic feudalism; one lord was given jurisdiction over the buying and making of guns and ammunition—responsible to a committee of Congress; another over buying or making clothing and equipage and providing quarters—responsible to a committee of Congress; another bought food—responsible to a committee of Congress; another bought and dispensed medicine—responsible to a committee of Congress; and so on through the entire list.

These functionalized, bureaucratic, feudal lords did not look to their titular superior, the leader chosen by and responsible to the nation, for powers and policies. They looked to irresponsible committees. And because of the independence which was thus given, each chief built around himself a bureaucratic wall that even the constitutional chief executive himself could not get over or break through without wrecking limitations and provisos that had grown up in statute books as thick as moss on the shady side of a moat. In violation of the spirit of the Constitution, and of every ideal of democracy, Congress had taken upon itself control over each bureau of the administration. It had taken the initiative and the leadership that belonged to the executive in any scheme of responsible government and divided it among over a hundred different standing committees which, sitting behind closed doors, became both the real Congress and the real head of the administration. This was the institutional provision for leadership that existed at the time of the Spanish-American War. And it still existed when we entered into this war against Prussianism—not alone in the national government, but in most of our state governments as well.

That we got out of the Spanish-American War without enormous sacrifice of blood and treasure, and loss of our national

prestige, is due to the fact that a much less effective, moribund leadership had grown up in autocratic Spain. Consider what might have happened to Shafter's 17,000 men if the Spanish army of 196,000 men then in Cuba, more than twelve to one of the American forces landed, had been under the direction of a Foch, a Haig, or a Hindenburg. Shafter debarked his army without opposition, his only loss, caused by accident, being two men and a few mules, and the only difficulty experienced being his lack of debarkation facilities. So destitute was the army of means of landing that it was necessary to throw the mules and horses overboard and make them swim for shore. Although there had been ample time and opportunity for the Spanish generals to have brought their army into action between the 22d of June and the 1st of July, Spanish records show that they had only 9,000 in the vicinity of Santiago. The Spanish soldier proved a good fighter, but he lacked leadership. If he had had good leadership it is thought that it would have taken not less than a half million men and possibly two years to reduce the Island of Cuba. Judged by results at the Battle of El Caney, this seems a conservative estimate. The only reason for our early success in the Spanish-American War was that the enemy was worse off for leadership than we were. Victory came to us by default. But we can look forward to no defaults under Prussian leadership.

Let us follow the Spanish-American War experience a little further, for it is helpful. Let us follow it into the administration of Mr. Roosevelt, who saw and felt the lack of unity of direction and control. As illustrative, let us consider the futility of Mr. Roosevelt's effort to put unity of direction and control into the military establishment—due to a popular appreciation of the need. The enormous cost of the Cuban campaign, short though it was, the confusion and waste on every side, was the reason urged by Mr. Root in 1903 for organizing the General Staff.

Yielding to this influence, an Act of Congress was placed on the statute books. This did not break down bureaucratic walls. Even with Mr. Roosevelt as constitutional commander-in-chief and Mr. Root as secretary of war, these old bureaucratic, feudal monopolies were protected by Congress as true representatives of our old *laissez faire* philosophy of government. These were so firmly intrenched that it took fifteen years and then several months of confusion in preparation for a war which left no doubt

in the minds of the people and their representatives that the military powers must be placed under strong, centralized leadership, before the General Staff was permitted to function effectively.

Mr. Taft felt the same handicap, and through his entire administration he endeavored to have the principal of executive leadership accepted in matters of administration and finance—making the representative body a court of inquest, with powers to enforce its conclusions through its constitutional right to control the purse. The futility of this effort is shown in the treatment accorded to his recommendation of an executive budget procedure. The idea was featured in the press and favored editorially. Only two newspapers opposed it. In a referendum taken by the Chamber of Commerce of the United States, only one trade body voted against it. But what was not seen or understood was that although it would require no constitutional change, as was set forth by the President in his message, it would require a complete change of procedure. Instead of having the machinery of Congress so geared up that the initiative in matters of administration and finance could be divided among over a hundred irresponsible committees, it must come from a responsible executive, the administration itself—leaving Congress free to review, criticize, discuss and finally to approve or disapprove the acts and proposals of those whose duty it was to render public service. Mr. Taft proposed that the president and the cabinet should take the initiative and then stand the test of open public questioning, criticism, and discussion before Congress, thereby making the president and his cabinet responsible for every measure which they considered essential to the adjustment of the working machine. This done, Congress would be free to hold the executive to account.

Since this was a frontal attack on the system of "government-by-congressional-committee," and the entrenched bureaucratic autocracy that had grown up under it (a system that had been inducted with the consent and approval of the people for the purpose of making the executive weak), Congress assumed that the country would not support the proposition to give the initiative to the cabinet, while Congress made it responsible through their power to control the purse. The Constitution admitted of such a practice. But opposed to it was more potent habit—a habit which could not be changed without a mandate from the people.

The recommendations of President Taft for the introduction of an executive budget procedure were received by members of Congress with an air of patronizing superiority. When President Taft showed the seriousness of his purpose by issuing an order to the members of his cabinet to prepare such a budget, a clause was injected as a "rider" on a deferred appropriation bill passed in August 1912, the intention of which was to prohibit it. This "rider" was slipped into the bill in the committee room, and so deftly was it done that few members of Congress knew that they were voting for a proposal aimed to prevent the president from doing what he claimed to have a constitutional right to do.

President Taft, however, did not falter. He issued a letter to Mr. McVeagh, as Secretary of the Treasury, stating that this rider could have no force as against the constitutional right of the president. Then he asked the cabinet to proceed to make a budget as requested. After various interferences and delays, due to the attitude taken by congressional committees, a budget was submitted. It was promptly consigned to a pigeon-hole in the thought that it would be lost sight of. It was published, however, at the expense of the president's appropriation, and has been at work every day since—out in the back country among the people. So firmly has it taken hold on the minds of thinking men that it promptly became an issue in every state in the Union, over forty of them having passed laws relating to it. Furthermore, in the last presidential campaign, it found expression in the platform of each of the leading political parties.

In all these laws, however, this thought has failed to take hold: that a budget is only a procedure for holding an executive responsible by forcing him to come forward, tell what he has done and for what he asks support in the future; that there can be no such thing as a budget so long as the initiative in matters of finance and administration is in one or more legislative committees. All that the people can hope to get is a committee report, after practically all the decisions have been made, with little or no opportunity given for inquiry, criticism and discussion which will reach the people. What is called a "legislative budget," as has been shown in the state of New York, is simply a more orderly way of conducting "invisible government."

President Taft strongly urged also that the executive be permitted so to organize the administrative offices and bureaus as to

enable him to discharge his responsibility to the public—to carry on the business of the government with a minimum of waste. But it was not until the life of the nation hung in the balance, and every human and material resource was plainly needful to turn the scales in its favor, that the idea that national economy and governmental efficiency were desirable began to be taken seriously.

Mr. Wilson has done much to prepare the way for responsible leadership. He was one of the first American writers to point to the fact that practically all initiative had been taken over by standing committees of Congress, thereby leaving the executive a negative force. As governor of New Jersey he stood for executive leadership. When he became president he upset the traditions of a hundred years by appearing personally before Congress to discharge his constitutional duty of addressing them on the state of the Union. And when it became apparent that the committee system must be abolished to enable the executive to give unity of direction to the many commissions, bureaus and offices which were required to co-operate in the prosecution of the war, he assumed personal responsibility for the Overman Bill giving to the president the power to reorganize the machinery of administration.

This power was finally given, as a war necessity. The bill was passed. But note the reservation. It was passed with an apology and a promise that after the war is over Congress will again take the initiative out of the hands of the executive and replace it in the hands of a hundred or more irresponsible committees of the representative branch. With all the appeals which have been made to the public, with all that has been said about the necessity for national economy, there are still Americans who insist that inefficiency and waste are the price to be paid for democracy—that we must choose between this and autocracy. If this conclusion is accepted as a principle for future action, the days of American democracy are numbered. That weakness and waste are not essentials of democracy, France has amply proved. France has proved that democracy can be strong. Great Britain has proved that popular control over political leadership is not incompatible with strength.

This brings us to our second point of institutional weakness. Strong, responsible leadership, as a means of developing an efficient public service, is not the only part of the mechanics of

democracy to which attention should be given in this time of war stress. Wastefulness is not necessarily a fatal national vice. Except when confronted by threatened invasion, we may still be slothful and survive. We may even continue to feel superior about it so long as brave France and efficient Japan stand as buffers on either side of us against the spread of Prussian aggression by land, and Great Britain spreads its protecting wings over the seas. What must prove our fatal institutional weakness, unless it is overcome, is irresponsible criticism and publicity.

When Congress gave over to its committees the initiative in matters of finance and administration, it unfitted itself to act as an independent forum. It introduced what has come to be known as invisible government—leaving to the people only irresponsible agencies through which to keep informed. Unless we provide the means whereby public opinion may have accurate knowledge of the facts and conditions which must be taken into account in determining whether one measure or another, or one leader or another, shall be supported; unless the electorate, as a jury before whom public administrations are tried, can act on evidence instead of mere allegation and persiflage, on material facts instead of demagogical appeals to prejudice and popular passion—our democracy will rest on no firmer a foundation than does the democracy of Russia.

We do not impugn the high moral purpose of the Bolsheviks. We do question their intelligence. What has wrecked the machinery of administration in the hands of Russian democracy was not its own weakness and wastefulness; nor was it lack of means for making its leadership responsible. Russian democracy failed because it failed to develop a procedure which would insure to the people and their leaders political justice, with the result that the enemies of the state, the enemies of democracy, by processes of cunning and cant, used the right of free speech and free press, so long denied, to poison the streams of public thought. It was irresponsible criticism and publicity that first undermined confidence in the public service—inciting acts of violence which operated to destroy the only instruments the people had, either to protect themselves against Prussianism or to conserve their own welfare.

Democracy has stood for justice, a justice which rests its judgments on commonly accepted standards of morality. With a voice



of protest it has stood against the acts of autocracy when these acts have violated individual rights. It was in behalf of private justice that its voice was first heard. Five hundred years ago it was heard in England, and first King John and then King Henry was forced to sign a pact that "No free man shall be taken or imprisoned, or disseized of his freehold, or his liberties, or his free customs, or outlawed, or exiled, or anyways destroyed, nor will we go upon him nor will we send upon him, unless by the lawful judgment of his peers." The first charter of liberty in America, the old charter of 1641 of Massachusetts, provided that "no man's life shall be taken away, no man's honor or good name, shall be stayned" unless by due process of law. The Declaration of Independence gave as one of the reasons for revolution, "depriving us in many cases of the benefits of trial by jury." Approval of our federal Constitution was withheld until assurance was given that in a Bill of Rights would be added:

In all criminal prosecutions the accused shall enjoy the right of a speedy and public trial by an impartial jury, and be informed of the nature and cause of the accusation; to have compulsory process for obtaining witnesses in his favor; and to have the assistance of counsel for his defense.

Since the days of Magna Charta one of the most sacred things in the upbuilding of institutions for private justice has been a procedure which will insure to the defendant party and to the people, through a representative jury, that judgments rest on fact and not on assumption of power. The underlying purpose of creating a representative branch of the government was to give to the people and their servants the right of inquest and trial in all controversies having to do with matters of common welfare. But in our intense individualism we have overlooked that fact that we are quite as much interested in political justice as we are in private justice; that democratic government must work through human agencies; that the life of the state depends on the powers of its leaders to organize; and that powers of leaders depend on the continued confidence and good will in which the people hold them.

When an accusation is made that a public officer has been inefficient in management of a public trust, and wasteful of public funds, this is quite as much to be considered a charge of "infamous" crime against democracy and against the state as information and complaint of injury to private property. The state

is quite as much interested in any act or proposal of an authorized executive which bears on a matter of public policy as it is in the properties or interests of individuals. If a person accused of doing injury to life or property is entitled to the protection of "indictment by a grand jury," "the right of speedy and public trial by an impartial jury," "the right to be informed of the nature and cause of the accusation," "to have compulsory process in his favor," and "to have the assistance of counsel" before he can be marked by the public press for popular disfavor and penal discipline, even greater is the need for a procedure which will give to the people and their servants protection from false accusations of the designing and the selfish.

It was the fair intent of our Constitution that the representative branch should be a court of political justice. Massachusetts still calls her representative branch her general court. What we have lacked is not an agency of political justice, but a procedure which will keep the representative body as a grand jury from becoming a party in interest. By permitting Congress to take the initiative we have consented to making it unfit. We have deprived ourselves of the means of independent inquiry with the benefits of counsel. This, and a public consciousness that when accusation is made against a public officer the life of the state and its material interests are being threatened, lie at the foundation of democratic control. Any charge made against persons chosen for positions of public trust is a matter which should be brought before a responsible tribunal. This is not a matter to be bandied about by scandal-mongers and irresponsible persons, and given currency under assumptions of constitutional guarantees of the right of "free speech and free press."

When we have adequate means for inquiry, discussion, criticism and publicity in a duly constituted court of political inquest, before the bar of which those who are responsible for executive leadership are required to come and give a full account of themselves; when this court has the power to enforce its judgments by control over the purse, subject only to an appeal to the electorate, we need not fear. Without such a court of political justice, "free speech" and "free press" may be quite as much a menace as a means of protecting our liberties. In fact, no one can be free who is at once ignorant and unjust. Under our present institutions we have no way of knowing whether our information comes from a "free press" or is only an "equity of re-

demption" that is speaking to us through editorial and news columns.

To make this point quite clear, let us picture Mr. Wilson, through his cabinet, exercising the powers recently given under the Overman Act, reorganizing our national bureaucracy so that we may develop the full strength of our manhood and the most economic use of our great national resources for winning the war. This will necessarily take time, but he makes a vigorous beginning—and December next he comes before Congress for more money.

Let us picture Congress doing its part as a court of inquest, a jury made up of representatives of the people. As such they organize, so that they may find out whether Mr. Wilson's cabinet is composed of men who are to be trusted as executives in this great emergency. They organize by appointing an auditor-general with an adequate critical staff, to review, approve or disapprove each business act of the administration currently; and to report independently to Congress. They create a joint recess committee on finance and administration, whose membership is made up of the most competent critics in matters of this kind, and whose chairman is selected by those who do not agree with Mr. Wilson in matters of policy—the opposition. Senator Chamberlain heads the committee, which proceeds at once to prepare for the next session. Then Congress adopts a procedure which requires that the budget and all other measures proposed by the president and his cabinet shall first be taken up in a joint Committee of the Whole with the cabinet present to explain, discuss and defend. In order that there shall be a real trial, a real inquest, in order that fullest discussion and publicity be given under constitutional guarantees of "free speech" and "free press," they provide that the opposition may be permitted to select special counsel for leadership in the Committee of the Whole, in addition to the regular party whip. To persons selected as counsel are given such powers before the committee as will enable them to manage the case of the opposition against the administration before the Committee of the Whole sitting as a jury.

The cabinet has been preparing its case for weeks before Congress meets and the request for more funds is made. The members of the cabinet have kept in touch with what has been going on—having in mind that they will be called before the bar of the House. They have met together and in confidence decided what

"the Administration" will stand for as a matter of public policy. They have organized their leadership, both in the cabinet and on the floor. They are ready to explain and defend every act and proposal.

The opposition is also ready. The recess Committee on Financial Administration under opposition leadership, with power to subpoena witnesses and documents, assisted by the auditor general's staff organization, has become familiar with every act, with each item in the bill of particulars before it, and with the methods used by the administration in estimating future needs. It has prepared a report on aircraft construction; on ship-building; on purchasing equipment and supplies. Opposition leaders have become familiar with this and with the report of the auditor general.

Congress meets, and the opposition select Mr. Roosevelt, Mr. Taft and Mr. Hughes as special counsel. Two or three weeks are given to counsel for the opposition to study their case and arrange the strategy of the inquest, so as to bring out every fact and reason opposed to the plan of finance as proposed. They are also given a chance to request the preparation of any further statements of fact needed by the opposition.

The day of trial comes; the press tables are crowded; the galleries are full; Mr. McAdoo presents the application for funds in a budget speech. After he has finished, Mr. Roosevelt rises and interposes a demurrer—he moves "that the committee rise and report against the application of the administration for more funds." He argues "that this action be taken without going into their plans for the future in detail, for the reason that the cabinet cannot be trusted; that it has been weak and wasteful in time of great national stress; and that it is now trying to muzzle the press to cover up its mistakes of omission and commission."

The effect of this procedure on the country is electric. In case the motion prevails, there will be no other recourse than for President Wilson to reorganize his cabinet—to appoint persons who together will command the support of a majority. The proceedings of Congress at once have a news value as great as a cable from Pershing of a threatened break in the Western front; and the public is not reduced to reading the attacks of irresponsible persons on the administration.

If, after the hearing on Mr. Roosevelt's motion, it is denied, then follows the review and consideration of the administration

program. The budget is taken up line by line, and an informal vote is taken on each department. This new organization and procedure puts an end to "invisible government." It puts an end to irresponsible criticism and publicity. It enables the executive to develop strong leadership, and through giving to the people and their representatives the benefit of inquest, criticism and decision by a responsible representative deliberative body it makes strong leadership subservient to the will of a majority.

This is a popular rendition of what happened in 1866, when Mr. Gladstone, responsible for the administration of the affairs of Great Britain, with a view to keeping a majority back of him and protecting himself and his cabinet against irresponsible criticism, obtained the passage of a law by Parliament setting up just such an organization and procedure. His view was that the best way to meet opposition was to force it out into the open; to give it the fullest opportunity to know the facts and to present them in a duly constituted forum of the people.

Every country which has "responsible, visible" government has adopted a procedure for making its representative body a court of inquest for the people. We Americans first weakened our executive, then deprived ourselves of a means of responsible criticism. We violated the principle of separation of powers, by taking the initiative in matters of finance and in matters of administration from the executive and turning it over to Congress. Congress and our state representative bodies, using the same method, have done the natural thing—instead of performing the functions of a court of inquest, they have applied "gag rule." We wittingly deprived our administrations of unity of plan and action. We unwittingly deprived ourselves of the means of responsible inquiry and criticism, thereby making the people distrustful of all our public servants—ready to listen to any person who has the wit to commercialize attacks made on those who have risen to positions of trust and whose names have news value. The more unscrupulous the person making the attack under our system, the greater the personal advantage.

To resist Prussian aggression, democracy must become efficient. There is no way of making an inefficient democracy safe in the world. But democracy can neither be efficient, nor can it protect itself against the autocracy of a misguided public, so long as the good or bad opinion in which the government is held is formed by irresponsible publicity.

## EXECUTIVE LEADERSHIP IN A DEMOCRACY<sup>1</sup>

R. FULTON CUTTING

Chairman, Board of Trustees, Bureau of Municipal Research

ECONOMY is a rather dry subject in normal times. Budget making, accounting, business organization, does not appeal to the imagination of the electorate, but there are epochs in the country's history when they assume a supreme importance that gives them a dramatic interest. We are living in such an epoch today. The courage of our soldiers and the inventive genius of our scientists will not be adequate to win the war unless we are supported by financial ability and resourcefulness. The Federal Reserve Bank Act came just in time to make the great resources of this country available, but the employment of those resources and the conservation of them are still controlled by methods so archaic as to preclude any successful efforts at economy and efficiency.

There seems to be only one end to which all the ingenuity of our people today is given, and that is the increasing of the public revenue. We are forever seeking new expedients in taxation. We do not need more money so much as we need to use it aright. It was only a very short time ago that at an address in this city a representative of the national government is reported to have said, "We will tax the rich man more and more until he has very little left." That sort of shallow Bolshevik thinking is too current, and it will continue current until the intelligence of this great country comes to appreciate what a menace to democracy and civilization there is in financial recklessness. It may be true, of course, that the recklessness of the national government and of our governments all over, has been due to private improvidence. We have been a wasteful people, we have had money to burn and we have burned it, but we have now come face to face with a realization of the fact that the ultimate cost of this great war must be paid out of our private savings. We cannot go on placing our liberty loans and issuing city bonds in the hope that they will be

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<sup>1</sup>Introductory address as presiding officer at the National Conference on War Economy, June 5, 1918.

taken until we cut out both public and private waste. We are giving the very best we have in this great struggle for democracy, and we cannot afford to permit a spendthrift disposition of the resources upon which the future of the American people depends. There is no politics in this issue at all. The waste of public money is neither a Democratic nor a Republican peculiarity, its real sources lie deeper than that; it lies in the negligence that characterizes popular sovereignty, for the trouble is that our people pay no attention to administration after they have once elected a candidate for office. This sort of negligence has been a real misdemeanor in the past, but that misdemeanor will in these times of trial speedily become a felony if not corrected.

Now we cannot load the responsibility for our fiscal misconduct upon the shoulders of officials. The fact is that if the public insist upon the officials using old-fashioned tools and archaic methods and worn-out machinery they cannot expect from them the best productivity. We need new machines as well as trained men. We have not in the past had so large a reservoir as we ought to have had for supplies of trained public officials, nor have our great institutions of learning risen to a realization of the fact that public service is a profession. It is true that the uncertain tenure of office has operated to discourage to some degree preparation for public service, but the merit system has in large measure corrected that, and the growing demand throughout the country for qualified men will correct it further. It is time that the great institutions of learning seize this opportunity to measure up to their responsibility by graduating men equipped to make governmental administration scientific, practical and efficient. But however efficient an administrator may be he can always learn a good deal from the talents and the experience of his fellow citizens. In the past our people have been altogether too prone either to give to their administrators an irrational and often unmerited adulation, or an equally irrational and unmerited condemnation. The time has come when the citizen must learn to co-operate with his administrator, and to give whatever talent he possesses to making that administrator successful, no matter who he is or what his politics are. To this end Chambers of Commerce, Boards of Trade and other civic agencies should regard it as part of their functions in representing citizenship to give to

their local administration the value of the services of organized effort.

This is no time for us to criticize unless we criticize temperately, informedly and justly. It certainly is no time for us to condemn unless we find that officials are absolutely recalcitrant to every friendly offer of co-operation and absolutely deaf to every suggestion that may be courteously made. Our duty is to offer co-operation, and experience has shown to us that public officials are ready to welcome co-operation when it is tendered with an open hand, just as they are disposed to reject it when it is tendered with the mailed fist. It is the duty and the function of the citizen to be the co-operator with his administrator. The American electorate has grown into its adolescence, and it is about time that it should abandon the youthful practice of senseless mud slinging. Our campaigns, I trust, will be conducted hereafter upon grounds of policy and common sense, and not of personalities. What is needed more than anything else today, it seems to me, is a careful study by officials of the organization of government, a study conducted in the light of the experience of the best managed private corporations, for in the last fifteen or twenty years very great progress has been made by them in the elimination of waste, and in getting every particle of value out of every dollar spent.

Our governmental framework has been like that of a cottage erected for a family without any provision at all for an increase in the family's size, and to which had been added from time to time wings and stories and corridors and staircases, quite unrelated and inaccessible to one another; while what we want is a structure of the old colonial type, with its broad central hall and adjoining wings, every room accessible to the center, and with every facility for successful operation, so that the responsibility for cleanliness and order and efficiency and economy may be loaded right where it belongs, upon the shoulders of the house-keeper.

In the last half century we have entered upon a new phase of civilization. The English publicists call it the New Democracy. We have commenced and are now going along to an unparalleled degree in using the resources of government and exercising its powers in an effort to solve the great problems that spring out of the disabilities of the poor. The community has begun to realize the responsibility it has for its poorer and weaker members. We



are not socialists, we are simply passing from an age of academic individualism into an age of scientific and rational individualism. We are discovering the possibility of citizen co-operation through the agency of organization. But this policy is a costly policy in money. I have not the time nor the desire to reason out how successful may be the expenditure of money in matters of what they call beneficence, but it can be readily proved that almost every dollar that we have been spending in this city in the past has been of some practical benefit to the community economically. However, it is a costly experiment, and only by a very rigid economy can this movement be accelerated, thereby aiding us to realize the idea of democracy. In this particular time when the pressure of war expenditure is so great, of course the tendency and the desire is to some degree to limit the ministry of mercy on the part of the city. I trust we shall never do anything of that kind, for after all the only way in which we can realize these ideals is by strict economy. We can spend if we will only save.

In the national government today we find the president of the United States summoning to his assistance, his councils, his advice, the greatest men whom the nation has to offer. Perhaps that may be a prophecy, it may be an intimation of what will come after the war, when these men who have consumed so many years of their lives in their own industrial pursuits shall be called upon to advise, co-operate, as they ought to co-operate, with the elected authorities. If that is done, a new era will arise for us, because the large intelligence that this country is possessed of today is an immense reservoir of power and possibility if only drawn upon aright.

## EXECUTIVE RESPONSIBILITY AND A NATIONAL BUDGET<sup>1</sup>

NICHOLAS MURRAY BUTLER

President of Columbia University

THE business of national government has become so huge and so complex that the sharp separation of the executive and the legislative powers to which we have been accustomed for one hundred and forty years is now distinctly disadvantageous. It brings in its train lack of coherence and of continuity in public policy; it conceals from the people much that they should know; and it prevents effective and quick co-operation between the Congress and the executive departments, both in times of emergency and in the conduct of the ordinary business of government. There is a way to overcome these embarrassments and difficulties without in any way altering the form of our government or breaking down the wise safeguards which the Constitution contains. That is to provide by law, as may be done very simply, that the members of the cabinet shall be entitled to occupy seats on the floor of the Senate and House of Representatives, with the right to participate in debate on matters relating to the business of their several departments, under such rules as the Senate and House respectively may prescribe. Such an act should further provide that the members of the cabinet *must* attend sessions of the Senate and House of Representatives at designated times, in order to give information asked by resolution or to reply to questions which may be propounded to them under the rules of the Senate and the House of Representatives.

Had such a provision been in force during the past generation, the nation would have been spared many an unhappy and misleading controversy. What has sometimes been made public only after the labor and cost of an elaborate investigation by com-

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<sup>1</sup>With Dr. Butler's permission, this extract from an address on "A Program of Constructive Progress," delivered before the Commercial Club of St. Louis, Mo., Feb. 16, 1918, is included in this volume as his contribution to the Conference on War Economy.

mittee, might have been had without delay through the medium of questions put to a cabinet officer on the floor of the Senate or the House of Representatives. No feature of British parliamentary practice is more useful, or contributes more to a public understanding of what the executive is doing, than the proceedings at question-time in the Houses of Commons. A cabinet officer is in a much more dignified position if he is permitted to answer questions as to his official conduct and business on the floor of a legislative body and to make his reply part of the public record, than if he is interrogated in a committee room as an incident in some general inquiry. Perhaps no single step would do as much as this to restore public interest in Congressional debates, to promote administrative efficiency, and to bring about a just and proper intimacy between the legislative representatives of the people and the people's chief executive agents.

This is not a new question, or one unsupported by high authority; but unfortunately it has never been pressed to a successful issue. The classic document on the subject is the report of a Select Committee submitted to the Senate of the United States on February 4, 1881. That report accompanied and discussed a bill containing the provisions just mentioned, and also outlined certain rules to be adopted by the Senate and House of Representatives in order to make the provisions of the proposed bill effective. This report was a unanimous one and was signed by senators belonging to each of the two great political parties. They are men whose names carry great weight. The signatures are those of Senators Pendleton of Ohio, Allison of Iowa, Voorhees of Indiana, Blaine of Maine, Butler of South Carolina, Ingalls of Kansas, Platt of Connecticut, and Farley of California.

The bill which those senators reported thirty-seven years ago should now be revived and enacted. Their report discussed in elaborate detail both the advantages of the proposed measure and the possible objections to it, including those which might be raised on constitutional grounds. That representative committee argued with convincing force that if, by a line of precedents since the organization of the government, the Congress has established its power to require the heads of departments to report to it directly, and also its power to admit persons to the floor of either House to address it, it would seem to be perfectly clear that the Congress may require the report to be made or the informa-

tion to be given by the heads of departments on the floor of the Houses, publicly and orally.

Were such a custom to be established an almost certain result would be the selection as heads of the great executive departments of men of large ability and personal force, men able to explain and to defend their policies and measures before the Congress of the United States in the face of the whole country. It would also follow that the nation's legislature would be enabled to exercise a more intelligent and a more effective control over the executive departments than is now the case, as well as to render them more intelligent and more effective aid, in the form both of appropriations and of positive law.

Nothing would appear to stand in the way of this most desirable advance except our national political inertia, which always serves as a powerful obstacle to proposed political reforms. At the present moment, when the nation is making an unprecedented effort and when Congress is providing for loans and for taxes that are colossal in amount, and when new problems of far-reaching importance are constantly arising, it would be an inestimable public advantage were such a relation between the heads of the executive departments and the two Houses of Congress already established and in force.

If there is to be better and closer co-operation between the executive and the legislative departments of the government, and if that co-operation is to result in the largest practicable public benefit, there should be no further delay in agreeing upon a national budget system. The arguments for a budget have been presented many times and they are as convincing as they are familiar. The platform of the Democratic party adopted at St. Louis in 1916 and the platform of the Republican party adopted at Chicago in the same year, both declare explicitly for a budget system. It is hard to see why there should be any time lost in introducing it into the operations of our national government in view of the great advantages that must certainly follow.

In our form of government the Congress is made responsible for determining what work the government shall undertake, what form of executive organization shall be established to carry on this work, and what amount of public funds shall be provided in general and in detail for the operations of the government, as well as how those funds shall be raised. Since no money may

be drawn from the treasury but in consequence of appropriations made by law, a proper budget becomes the instrument of legislative control over the public administration. It is for Congress to determine what shall and what shall not be done, what shall and what shall not be undertaken. All experience proves that if what is to be done is decided in haphazard and desultory fashion, or in response to the unco-ordinated recommendations of a hundred different administrative officers, there will be waste, duplication of effort and ineffectiveness. To escape these and to enable the Congress and the country to hold the president and his administration directly and fairly accountable for public policies, alike of omission and of commission, the president should himself be called upon to present each year to the House of Representatives a definite and well-analyzed estimate of those proposed expenditures which the administration wishes to support and to make its own. It should be within the power of Congress to reduce or to strike out any of the items of this proposed expenditure, but the Congress should voluntarily relinquish or hold in abeyance—as it might readily do by a joint rule—its constitutional power to increase or to add to these items. Moreover, the president should explicitly recommend the ways in which the moneys necessary to meet the proposed appropriations are to be raised. If the Congress accepts these recommendations, it makes the policy of the administration its own; if it departs from them, then the Congress publicly and of record assumes the responsibility. This makes for publicity of action and for responsible democratic government.

Everything of importance relating to a national budget is to be found in the report of the Commission on Economy and Efficiency presented to the Second Session of the Sixty-second Congress on June 27, 1912. Happenings since that time have only served to strengthen the arguments that were used in that report. If the Congress is really to understand what the president and his administration wish to do and how they wish to do it, and if the people are to be in a position to hold the president and the Congress responsible for their several acts and policies, there must be established a national budget prepared and recommended by the chief executive. Every year's delay in bringing this about increases governmental confusion, inefficiency and extravagance, and postpones the possibility of a simpler, a better-balanced and a more effective administration of the public business.

## VIRGINIA WAR ECONOMY AND BUDGET SYSTEM<sup>1</sup>

LEROY HODGES

Aide-de-Camp and Secretary to the Governor of Virginia.

While the war-making power is reserved to the federal government by the Constitution of the United States, the strength of the nation in times of war as well as in times of peace is in proportion to the economic strength of the component states, and no greater. In any discussion of national war economy it is therefore eminently fitting that the war-time economy of the individual states should be considered. In this era of unprecedented nationalization and centralization of federal authority, the source of this vast power should not be overlooked.

We are told that the three factors which will win this war are money, men and food. The money which we are now spending in unlimited sums must be secured in the several states; our magnificent army of 5,000,000 men must be recruited in the states; and the food required to maintain ourselves and our Allies must be produced in the states. Having, under the stress of war, forged "the nation whole and complete," it is pertinent that we inquire just what the individual states have done to increase local administrative efficiency and place their economic assets on a war basis.

In Virginia sweeping administrative reforms have been undertaken in the state government in order to place public affairs on a basis of efficiency and economy to meet the demands of the war. A state council of defense, with very broad powers conferred by an act of the general assembly, has been appointed by the governor and placed in entire charge of all war activities in the state. All other state and local defense bodies are made subordinate to the Virginia Council of Defense, which, by law, is charged with the work of "co-ordinating the material, intellectual and moral forces of the commonwealth in the patriotic work of aiding the nation in its war for humanity." A most comprehensive workmen's compensation law also has been passed which creates a full-time salaried industrial commission with extensive powers. One of the most elaborate systems for the prevention and control of tuberculosis in any of the states has also been established, for the support of which the general assembly has levied a special tax and made large direct appropriations. Provision has also been made for the elimination of commercialized vice in the camp communities of Virginia, and the control of venereal diseases in the neighborhood of the military and naval cantonments is being handled as a medical rather than as a legal problem. The chief feature in Virginia's program of war economy, however, is the modern executive state budget law recently enacted by the legislature, which will establish complete co-ordination of revenues and expenditures and insure greater executive supervision and control of all state affairs.

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<sup>1</sup>Discussion at the National Conference on War Economy, June 6, 1918.

After a careful study of ways and means to place the government of Virginia on an efficient "war" basis by the Virginia Commission on Economy and Efficiency, the conclusion was reached that the one thing that more than anything else would place the state government on a more business-like basis and enable it to function more efficiently in meeting the demands of the war would be the introduction of a modern budget system. The commission accordingly drafted a budget law and embodied it in its report to the general assembly in January. With the approval and support of Governor Westmoreland Davis, who was inaugurated on February 1, this law was introduced as a bill in both houses of the assembly and promptly adopted. In the senate it received only two dissenting votes, and in the house not a single vote was cast against it. The act was approved by Governor Davis on February 19, 1918, and will take effect on June 21, 1918. With the enactment of this law Virginia has cast off the shackles of the hopelessly unbusiness-like and inadequate method of handling its financial affairs by the sixty-day legislative committee method, under which the same legislature that passed the new budget law made excess appropriations amounting to nearly a million dollars, unknown to any of its members. In fact, the general assembly of 1918 adjourned after adopting a general appropriation act authorizing expenditures during the 1918-1920 biennial period of more than a million and a quarter dollars in excess of the estimated revenues for the same period, which forced the governor to recall the assembly to reduce the appropriations within the revenues in order to avoid the deficit.

Such a situation could not have arisen under the new budget system, for the law places ample safeguards over the treasury, and places definite responsibility on the governor, who is constituted "chief budget officer of the state," to frame an intelligent financial policy for the conduct of the state's business. The Virginia budget law requires that every two years all state agencies shall report their financial needs to the governor in itemized form before the first of November preceding the January meeting of the general assembly. These estimates must be filed with the governor in the form prescribed by him. For inclusion in the budget without revision by the governor, the auditor of public accounts is required to furnish him with an estimate of the financial needs of the general assembly, to be certified and approved by the presiding officer of each house, for each year of the ensuing biennial period; and a like estimate of the financial needs of the judiciary, as provided by law. These estimates from the auditor must be accompanied by a full and detailed explanation of all increases and decreases. At the time these estimates are filed with the governor, the auditor of public accounts is also required to furnish him with certain specified information regarding expenditures, revenues and cash balances, prepared in accordance with the budget classifications adopted by the executive. He must also file with the governor an itemized and complete financial balance sheet for the state at the close of the last preceding fiscal year, and such other statements as the governor shall request.

In addition to the governor's constitutional authority to "require information in writing, under oath, from the officers of the executive depart-

ment and superintendents of state institutions upon any subject relating to the duties of their respective offices and institutions; and to inspect at any time their official books, accounts and vouchers," the budget law gives him authority to call for and have furnished to him promptly any information he may desire in relation to the affairs of any state agency. The budget law further provides that every two years the governor must make a careful survey of all state departments and institutions in order to possess a working knowledge upon which to base his recommendations to the general assembly. He is empowered to employ competent assistants in conducting these biennial surveys.

When these data have been received, the governor is required to hold public hearings, during the month of November preceding the meeting of the legislature, on all estimates to be included in the budget. Within five days after the beginning of the session of the general assembly, the governor must submit his budget, accompanied by specified supplementary financial statements, together with a general survey of the state's financial and natural resources and a review of the general economic, industrial and commercial conditions of the commonwealth.

Obviously, the Virginia budget law provides adequate facilities for the governor to acquire definite information for the preparation of an intelligent work program. He can indicate to the general assembly exactly how and for what purpose the money asked for will be spent. Moreover, he is required to show the general assembly just how and from what sources he expects to secure the revenues required to carry out his program.

It is mandatory that the governor shall accompany his budget estimates with a tentative bill to be known as "The Budget Bill." Within five days after he has submitted the budget the law requires that the standing committees of the house and the senate in charge of appropriation measures shall sit jointly in open sessions to consider the governor's estimates. This provision makes it possible for any department or individual to appeal from the governor's allowances and secure a hearing before the legislative committees. The governor, or his representative, and the governor-elect, however, have the right to sit at these hearings and be heard on all matters coming before the joint committee. The committee can check the governor's estimates, if it so desires, by causing the attendance of department heads and other state officials.

The constitutional rights and functional prerogatives of the legislative department are not infringed under the Virginia law, for "The General Assembly may increase or decrease items in the budget bill, as it may deem to be in the interests of greater economy and efficiency in the public service, but neither house shall consider further or special appropriations, except in case of an emergency, which fact shall be clearly stated in the bill therefor, until the budget bill shall have been finally acted upon by both houses. All bills introduced in either house, carrying appropriations, shall be itemized in accordance with the classifications used in the budget." As will be seen, this provision forces an early consideration of the administration's work program, directs attention to the financial needs of the state and to the condition of the treasury; and checks the flood of local and "political"



appropriation measures until after the general assembly has had an opportunity properly to consider and provide for the constructive and vital business of the state.

Aside from the powers conferred on the governor under the budget law, his constitutional veto power is unaffected. The Virginia constitution provides that "The governor shall have the power to veto any particular item or items of an appropriation bill, but the veto shall not affect the item or items to which he does not object." If the governor does not approve of a bill, or "If he approves the general purpose of any bill, but disapproves any part or parts thereof, he may return it." In the first case, a two-thirds vote, if the number of members present include a majority of the members elected to that house, is required to pass a bill over the governor's objections, or to re-insert an item in the appropriation bill after it has been vetoed by the governor. In the second case, a majority of the members present can refuse to change a bill in accordance with the governor's recommendations, whereupon the bill can be acted upon by the governor as if it were before him for the first time—*i. e.*, he can either approve or veto the bill as he may desire.

A close study of the budget laws in the several states clearly reveals the many advantages of the system created by the Virginia law. Our law provides a simple, direct and business-like method of handling the public affairs of the state in a conservative and constructive manner. While we have under way a number of administrative reforms made necessary by the war, our budget law forms the keystone in Virginia's program for war economy.

## EXECUTIVE LEADERSHIP IN A DEMOCRACY DISCUSSION<sup>1</sup>

RICHARD S. CHILDS, President, National Short Ballot Organization: Our legislative bodies in America, both national and state, are chaotic in their management compared with the parliamentary bodies of Europe, and it is because they lack anything which can properly be described as even approaching a ministry. We think of a ministry as something that concerns countries that have kings and crowns, but we should have in this country something comparable thereto in order to give a spinal column to our legislative efforts.

Let us therefore formalize existing practice and procedure. At the present time, every governor, every president has his kitchen cabinet, composed of certain leaders of the legislative body in whom he has confidence. He deals with those men unofficially, almost in a secret manner, as if it were something of which to be ashamed. Through the medium of those trusted friends in the two houses he deals with his legislative body. Let us carry that existing and necessary practice a step further. Formalize it, set it up, with good reason behind it, as a thing to be recognized by all men, and call upon our chief executive to select from the two houses of the legislature a group of leaders who are able to work acceptably with him, and who are acceptable to the two houses of the legislature. Let him meet with this legislative cabinet once a week or as often as the work may require. Let him thus sit down with half a dozen members of the legislature and with them formulate the party policy for the session, set before the legislature its annual task and determine what bills shall be called administration bills with the prestige of the governor behind them. Let this legislative cabinet be the body to prepare and put before the legislature each year the "administration measures." Can you not see that to be a member of the governor's cabinet, this legislative cabinet, would give certain members of the legislature more authority on the floor and establish their leadership as being consistent with that of the governor? At present we have three leaderships: the governor with his messages and his power to get publicity; the leaders of the upper house; the leaders of the lower house—three separate leaderships.

Let us bring them together into a committee, consolidate them, and all three forces will gain effectiveness. It is necessary, however, that the governor should select them, and not have the individual houses elect them, because it is absolutely necessary that such a body shall be harmonious, and as the governor is a fixed point, we have to let him pick the members of such a committee from the two houses.

No legislative body has ever been a success without an arrangement

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<sup>1</sup>Before the National Conference on War Economy, June 5, 1917.

very much like that. With it, I believe we should soon get into a condition where the main measures to be put through each year would be the product of that committee, aided as it would be by all the resources of the governor's administrative staff.

Its legislation would be scientific, and against that legislation the bill that is proposed by the farmer from some remote village, written by a lawyer at home, amended and mutilated in some committee of the legislature, and jammed through one house on sentiment regardless of facts and science, would have no chance whatever. More and more the leadership would follow the main track that is created, and the rank and file of the legislature would fall into the position for which they are ideally fitted, that of being pure representatives, passing the bills in review and acting on them in accordance with the views of those they represent. That is their function. Keep them to it, and the present legislators will make good for all of us.

WILLIAM P. BURR, Corporation Counsel, New York city<sup>1</sup>: Here in the City of New York we are confronted with extraordinary conditions with regard to the questions of the subway contracts. Here is a great work practically completed, and yet threatened with abandonment unless some relief can be extended to the men who have engaged to build this great work, in view of the conditions which did not confront them at the time when the contracts were made. The increased cost of materials, the higher rates for labor must all be adjusted, or these men may go into bankruptcy, and the great project fail. That is one of the questions which come up and must be solved. Can it be solved by allowing these men to abandon the contracts, or will it be solved by continuing the contracts with the city acting as the banker to advance the money before the payments are due in order to enable them to carry on this work? So also with the railways. Shall the rates of fare be increased? Should they be increased in view of the contractual relations which have existed for years and under which the franchises were originally obtained? Will the price of gas go up because of the higher price of the commodities that go into its making? Must the general consumers meet that condition and pay the higher rate, notwithstanding the fact that the rate is fixed by statute? Must these increased expenses be met by the companies or by the citizens?

All these complex municipal questions must be met by intelligently directed public action. This can only be effected if we are alive both to the needs of our own city and the magnitude of our national task.

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<sup>1</sup>In presenting the greetings of the City of New York to the National Conference on War Economy, June 5, 1918.

## THE BUDGET AS AN INSTRUMENT OF POLITICAL REFORM<sup>1</sup>

W. F. WILLOUGHBY

Director, Institute for Government Research

THE first step toward the accomplishment of any object, or the solution of any problem, is to secure a clear idea of the precise nature of the object sought, or the terms of the problem to be met. It is a remarkable fact that, great as is the attention which has been given during recent years to the subject of budgetary reform in the United States, only slowly has the full significance of this reform, or of the steps necessary for its complete accomplishment, been appreciated, even by those who have been actively promoting it.

At first, the adoption of a budgetary system was looked upon as but an improved procedure in the raising of revenue and the voting of funds for the support of the government and its various activities. The more this proposed reform has been studied, however, the more has its support become apparent. It is now seen that, if fully adopted, it will go a long way toward the removal of many of the most serious defects in our governmental machinery as at present constituted and operated, and will, therefore, profoundly affect our whole political system.

The time has fortunately passed when our system of government is looked upon as representing the last word in political organization. Though we do not question the validity of the fundamental principle of popular government upon which our political system rests, it is recognized that, notwithstanding more than a century of experience, many of the problems of making this type of government efficient still remain to be solved. Among these problems first place may be given to the following: the perfection of means through which popular control over the conduct of governmental affairs may be made effective; the more satisfactory determination of the functions of our legislative bodies in respect to the direction and control of administrative affairs; the

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<sup>1</sup>Read at the National Conference on War Economy, June 6, 1918.

similar determination upon a more satisfactory basis of the function of our chief executive in administrative matters; and, as a necessary collateral problem to the last two, the determination of the relations that should exist between the chief executive and the legislature, on the one hand, and subordinate administrative officers on the other, in respect to this branch of government.

These problems have to do with those features of our government which, by almost common consent, are the least satisfactory of our political institutions, are primarily responsible for the failure of our government to give satisfactory results in practice; and, what is of direct concern to us here, are such as the establishment of a proper budgetary system, more than any other single device, will tend to solve.

It is hardly necessary to point out that the popular will cannot be intelligently formulated nor expressed unless the public has adequate means for knowing currently how governmental affairs have been conducted in the past, what are present conditions, and what program for work in the future is under consideration. Of all means for meeting this requirement none approaches a properly prepared budget in completeness and effectiveness. It at once serves to make known past operations, present conditions and future proposals; definitely locates responsibility; and furnishes means of control. Too much emphasis therefore cannot be placed upon the budget as an instrument through which real democracy may be achieved.

Regarding the function of the legislature in respect to conduct of administrative affairs, the conviction has been steadily growing that we have erred in making our legislative bodies boards of directors to concern themselves with the details of the activities, organization and methods of business of administrative service. The true function of the legislature should be to act as an organ of public opinion in the larger sense, and as the medium through which those concerned with the actual administration of affairs should be supervised, controlled and held to a rigid accountability for the manner in which they discharge their duties.

John Stuart Mill in his *Essay on Representative Government*, published in 1861, has a remarkable chapter entitled, "Of the Proper Functions of Representative Bodies." After pointing out that there is a radical distinction between controlling the business of government and actually doing it, and that the latter is

a task which no numerous assembly should attempt to perform, Mill goes on to say that "it is equally true . . . that a numerous assembly is as little fitted for the direct business of legislation as for that of administration."

"The proper duty of a representative assembly in regard to matters of administration," he continues, "is not to decide them by its own vote, but to take care that the persons who have to decide them shall be the proper persons." And again he says:

Instead of the function of governing, which it is radically unfit for, the proper office of a representative assembly is to watch and control the Government; to throw the light of publicity on its acts; to compel a full exposition and justification of all of them which any one considers questionable; to censure them if found condemnable, and, if the men who compose the Government abuse their trust, or fulfil it in a manner which conflicts with the deliberate sense of the nation, to expel them from office, and either expressly or virtually appoint their successors. . . . This is surely ample power, and security enough for the liberty of a nation. . . . In addition to this, the Parliament has an office, not inferior to this in importance; to be at once the Nation's Committee of Grievances and the Congress of Opinions; an arena in which not only the general opinion of the Nation, but that of every section of it, and as far as possible, of every eminent individual whom it contains, can produce itself in full sight and challenge discussion. . . . Nothing but the restriction of the function of representative bodies within these rational limits will enable the benefits of popular control to be enjoyed in conjunction with the no less important requisites (growing ever more important as human affairs increase in scale and in complexity) of skilled legislation and administration.<sup>1</sup>

Nowhere, so far as the writer is aware, has this vital question of the function of the legislative chambers in relation to administration been more clearly and accurately stated. In it is to be found the explanation why the British parliamentary system, which is conducted strictly on the principles there laid down, works so smoothly and efficiently in respect to the formulation and execution of administrative programs, and why our political system, in which these principles do not find expression, gives quite contrary results.

It is one thing, however, to see a defect and quite another to

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<sup>1</sup>For this statement of Mill's consideration of the proper function of, legislative bodies, the author is indebted to an unpublished manuscript by his brother, W. W. Willoughby.

determine the action that should be taken to remove it. It is at this point that the matter of budgetary reform enters. Manifestly the introduction of a budget system constitutes the most effective means of giving our legislative bodies their true position and function in our political system. In the executive is primarily vested the responsibility for the formulation of a work program and the determination of the agencies through which it is to be put into effect. The legislature will restrict its action to that of general direction, supervision and control.

Closely connected with this question of the re-determination of the function of the legislature in respect to the administration is that of the re-determination of the functions of the chief executive in this respect. In the organization of our governments, national and state, care was taken to make it clear that the president and the governors should in all cases be vested with the executive power. This term "executive power" was not deemed, however, to be synonymous with, or even to include, administrative power. The chief executive was not made the administrator-in-chief of the government. This failure to make the president and the governor the head of the administration is intelligible when we appreciate that at that time the duties of government were almost wholly confined to what are known as the essential functions of government—that is, the enactment and enforcement of law, the maintenance of order, the conduct of foreign relations etc. Only to a comparatively slight extent did they, strictly speaking, perform administrative duties. There was consequently little apparent need for a general business manager who should have immediate responsibility for, and direct supervision over, the conduct of administrative affairs.

Conditions at the present time are radically different. Both our national and state governments are engaged in administrative undertakings of great importance and variety. With this change in the character of their work has come the imperative necessity, if governmental affairs are to be efficiently conducted, for the development of an office of general administration corresponding to that of general manager in a business corporation. There is but one way by which this can be achieved. The chief executive

must be definitely given the status and powers of administrator-in-chief.

Probably the greatest single defect in state governments as they now exist is their failure to provide for this feature. The governor, though designated as chief executive, has been given a position, as it were, outside of the administration. He has little or no direct authority over the conduct of affairs in the several state services and institutions. Only in exceptional cases does he enjoy the appointment of the heads of important administrative services, or the power effectively to control their conduct. For the most part these men hold office through election by the people, or by appointment by the legislature. In general the principle followed has been that the line of authority and responsibility runs directly to the people or the legislature.

This feature of our state governments has the most direct bearing upon the problem of a budget which we are considering. The significant point is that it is impossible to establish an effective budgetary system until this feature of our government is corrected. As long as the governor stands outside of the administrative branch, and has no direct responsibility for the conduct of administrative affairs, and no adequate powers over administrative officers, he cannot formulate a budget that will have the character or carry the weight that it should. Such a document will not be a financial and work program emanating from a responsible administrator-in-chief. It will at best be but a compilation and revision of programs prepared by others, made by an officer standing outside of the fields of administration, and not directly in control of, or responsible for, the manner in which administrative affairs are conducted.

It will be seen from the foregoing that this problem of the establishment of a budgetary system is intimately tied up with the whole great question of the reform of the administrative branch of our state governments. On the one hand, every step toward the establishment of an integrated administrative system means laying the essential basis upon which a scientific budgetary system rests. Such a system is one where all the administrative services are knit together as integral parts of one piece of administrative machinery, at the head of which stands the governor as general



manager, with adequate authority in respect to the appointment, removal, direction, supervision and control over all administrative officers. On the other hand, every step toward vesting in the governor responsibility for a budget tends just so much to accentuate his administrative responsibilities and to establish him in the position of head of the administration. Even though his constitutional and statutory powers in respect to the appointment and control of administrative officers may not be enlarged, the fact that he has to review the latter's requests for funds and has the responsibility of definitely stating what, in his opinion, should be the work program for the year or years to be financed, give to him a moral and actual power over administrative affairs that exercise will tend constantly to strengthen.

It is evident that making the governor head of the administration, or even conferring upon him the duty of formulating and submitting a budget, without changing his general powers in respect to the selection and control of other administrative officers, will enormously increase his effective powers and responsibilities. It is a canon of administrative science that, when discretionary power and authority are increased, a corresponding increase should be made in the means of controlling the manner in which these augmented powers are exercised. If legislatures are to surrender to the executive increased power in respect to the conduct of administrative affairs, they must strengthen the means by which they may assure themselves that these powers are properly exercised.

There are two methods by which this superior direction, supervision and control may be exerted—by specification in advance, or by providing that full information shall be currently available regarding the manner in which the delegated authority is being exercised. Legislatures are being asked to give up the first method of control. If they do so, it is imperative that the conditions stated in the second alternative shall be met. In meeting this requirement lies one of the great merits of a proper budget system. A budget is much more than an estimate of financial needs and means of meeting such needs. It is, or should be, at once a report, an estimate and a proposal. It is the document through which the chief executive as the authority responsible for the actual conduct of governmental affairs, comes before the fund-raising and granting authority and makes full report regarding the

manner in which he and his subordinates have administered affairs during the last completed fiscal period, the present condition of the public treasury and, on the basis of such showing, sets forth his program of work for the period to come, and the manner in which he proposes that such work shall be financed.

It is of the essence of a proper budget system that this document shall be so compiled, and so supported by supplementary analyses and data, that the legislature shall be enabled readily and accurately to pass upon how the governor and his subordinates have discharged the duties of their stewardship. It thus furnishes them an instrument of control which under present conditions is largely lacking.

It is not enough, however, that the legislature shall be thus provided with an instrument through which it can determine how their administrative agents are performing their duties. That body must provide itself with means through which it can effectively make use of this instrument. To do this three things are necessary.

First, the legislature must provide itself with an officer whose duty it is to audit all the accounts of the government and report his findings to it. This feature of having the audit of accounts performed by an officer of the legislature rather than of the executive branch is, it is recognized, one that is foreign to American practice. Consideration will show, however, that it is logical and essential if the legislature is properly to perform its function as a general controlling agent.

Second, the legislature must provide itself with a committee on accounts similar to the select committee on accounts of the British House of Commons, whose duty it shall be to receive the report of the auditor, examine it and bring to the attention of the legislature for appropriate action all cases where the administrative officers have not rigidly complied with both the spirit and letter of the law or have seriously misused their discretionary authority. Unless provision is made for such a body and procedure, there is danger that due consideration will not be given to the auditor's report, and required corrective action will not be taken. This committee should be as nearly as possible non-partisan in its make-up and action. The chairman of the British committee is always selected from the opposition and the convention

is firmly established that all party considerations shall be banished from its proceedings.

Finally, the legislature must make proper provision for the consideration of the budget and for taking the action required upon its proposals. In respect to this, the most important consideration is that responsibility for the consideration of the budget shall be concentrated in the hands of a single committee. Failure to do this will destroy the unity of the budget and thus defeat one of the main purposes of a budgetary system.

This question of budgetary reform is intimately connected with many of the political reforms upon which we place especial stress. For years we have appreciated the need for such fundamental reforms, but have been more or less doubtful as to how they should be brought about. In the development of the demand for the adoption of a budget we have at last devised such a means. The thesis that we have sought to establish is that the adoption of a scientific budget system by each of our commonwealths represents not only a great reform in itself, but will powerfully contribute to the accomplishment of those great measures of political reform which are essential if we are to demonstrate to ourselves and to the world at large that efficient administration can be secured under a popular government.

## THE DEVELOPMENT OF THE BUDGET IN ILLINOIS<sup>1</sup>

OMAR H. WRIGHT

Director of Finance of Illinois

THE first concerted action taken in furtherance of the establishment of a budget for Illinois is evidenced by the enactment of a law by the general assembly at its regular session in 1913, the measure taking effect on July 1 of that year. This act created a joint Legislative Reference Bureau to be composed of the governor, and the chairmen of the Committees on Appropriations and Judiciary of the senate and the house of representatives.

Quoting from this law, one of the duties of the bureau was To cause to be prepared, printed and distributed for the use of the members of the General Assembly, a detailed budget of the appropriations which the officers of the several departments of the State government report to it are required for their several departments for the biennium for which appropriations are to be made by the next General Assembly, together with a comparative statement of the sums appropriated by the preceding General Assembly for the same purposes.

Under this section, the Legislative Reference Bureau did prepare and publish such a so-called budget, or rather books of estimates, which proved unsatisfactory on account of the lack of executive control, a multiplicity of detail, and the failure to provide the proper authority for amendment or revision.

Subsequently, the fiftieth general assembly enacted a law known as the Civil Administrative Code, effective July 1, 1917, the department of finance being one of the nine new departments created by this law. This department is charged with the responsibility of preparing for presentation to the governor, for him to submit to the general assembly, the first state budget. This is one of the department's most important functions.

It is doubtful if any one subject in state government has received more attention during the past ten years than the question of directing the expenditures of public moneys through the medium of an intelligent budgetary program. So far, little real

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<sup>1</sup> Read at the National Conference on War Economy, June 6, 1918.

accomplishment has been registered. Expenditures for public purposes of cities, counties and states have increased approximately 100 per cent in the past decade. Various and intricate methods of indirect taxation have been developed in order to meet this increased outgo. In the final analysis, however, the individual pays the bill, and the larger part of the increase has been raised by the levying of additional direct taxes.

The situation in Illinois has, perhaps, been no worse than that of other states. It is doubtful if it has been better. During the past few years, states generally have made a more definite effort to locate and solve some of these known problems. This effort has resulted in the appointment of many economy and efficiency commissions. Such a commission was appointed in Illinois and made an excellent report to the general assembly on December 1, 1914. Practically all of these commissions have recommended in their reports the adoption of a budget program sufficiently comprehensive to cover both the raising of sufficient revenue and its proper expenditure.

The method developed in Illinois to make revenues equal expenditures has been to fix a state tax levy after the adjournment of the general assembly, sufficient to meet the amounts appropriated, taking into consideration the income from indirect taxation. By the rate so fixed, the extravagance or economy of the administration has been, to some extent, judged.

Among the constitutional provisions bearing on this subject are the following:

1. The supreme executive power shall be vested in the Governor .....
2. The Governor shall, at the commencement of each session, ....., present estimates of the amount of money required to be raised by taxation for all purposes.
3. No money shall be drawn from the Treasury except in pursuance of an appropriation made by law.
4. Every bill passed by the General Assembly shall, before it becomes a law, be presented to the Governor.
5. Bills making appropriations of moneys out of the Treasury shall specify the objects and purposes for which the same are made, and appropriate to them respectively their several amounts in distinct items and sections, and if the Governor shall not approve any one or more of the items or sections contained in any bill, but shall approve the residue thereof, it shall become a law as to the residue, in like manner as if he had signed it.
6. All appropriations, general or special, requiring money to be paid out of the State Treasury from funds belonging to the State, shall end with the first fiscal quarter after the adjournment of the next regular session.

The Civil Administrative Code prescribes the duties of the director of finance in connection with the state budget as follows:

Section 37. In the preparation of a State budget, the director of finance shall, not later than the fifteenth day of September in the year preceding the convening of the General Assembly, distribute to all departments and to all offices and institutions of the State government (including the elective officers in the executive department and including the University of Illinois and the judicial department) the proper blanks necessary to the preparation of budget estimates, which blanks shall be in such form as shall be prescribed by the director of finance, to procure, among other things, information as to the revenues and expenditures for the two preceding fiscal years, the appropriations made by the previous General Assembly, the expenditures therefrom, the encumbrances thereon, and the amounts unencumbered and unexpended, an estimate of the revenues and expenditures of the current fiscal year, and an estimate of the revenues and amounts needed for the respective departments and offices for the two years next succeeding beginning at the expiration of the first fiscal quarter after the adjournment of the General Assembly. Each department, office and institution (including the elective officers in the executive and judicial departments and including the University of Illinois) shall, not later than the first day of November, file in the office of the director of finance its estimates of receipts and expenditures for the succeeding biennium. Such estimates shall be accompanied by a statement in writing giving facts and explanation of reasons for each item of expenditure requested. The director of finance may, in his discretion, make further inquiries and investigations as to any item desired. He may approve, disapprove or alter the estimates. He shall, on or before the first day of January preceding the convening of the General Assembly, submit to the Governor in writing his estimates of revenues and appropriations for the next succeeding biennium.

Section 38. The Governor shall as soon as possible and not later than four weeks after the organization of the General Assembly submit a State budget, embracing therein the amounts recommended by him to be appropriated to the respective departments, offices and institutions, and for all other public purposes, the estimated revenues from taxation, the estimated revenues from sources other than taxation, and an estimate of the amount required to be raised by taxation. Together with such budget, the Governor shall transmit the estimates of receipts and expenditures, as received by the director of finance, of the elective officers in the executive and judicial departments and of the University of Illinois.

The department of finance, by reason of its authority to audit vouchers, examine accounts and require reports, will be advised as to the character and amount of the expenditures made by the several departments during the present biennium. It is compiling tabulations and a detailed analysis of such expenditures, during the year ending June 30, 1918, for use in checking up and com-

paring the requests for future appropriations, which will be made by the various activities in the state. However, irrespective of how complete may be the record of past expenditures, or how certain are the present needs, existing war conditions make intelligent budget-making difficult. Retrenchment and economy may curtail outgo in some avenues of state expenditure, but with over 27,000 insane, feeble-minded and incarcerated people in Illinois, all to be humanely cared for, retrenchment can go only so far. At the same time, because of the present abnormal business situation, the importance of careful budgetary procedure is greatly enhanced.

The appropriations made in Illinois by the last general assembly for the biennium beginning July 1, 1917, total approximately \$50,650,000, as follows:

Charitable and penal institutions.....	\$15,325,000
University of Illinois and state normal schools	6,706,000
State school fund.....	8,114,000
Judiciary .....	1,593,000
Legislative .....	1,005,000
Defensive .....	2,501,000
Highway building and maintenance.....	2,526,000
General administrative .....	12,880,000

Of the total amount appropriated, approximately 30 per cent is for salaries and wages. Our salary and wage problem in Illinois, as well as in the country generally, calls for serious consideration and study. The department of finance plans to submit to the governor, as part of its budgetary program, a recommendation for a classification and standardization of present salary schedules. The widely existing lack of uniformity in the amount of salary paid for the same class of work has caused endless annoyance and has often crippled efficiency in the different departments. As an example, salaries paid accountants range from \$1,500 to \$6,000 per annum. The same wide variation exists throughout the different activities in the state.

The value of state-owned buildings in Illinois is approximately \$25,000,000. Erection of these buildings began in 1845 and has continued intermittently since that time without any regularly ordered building program. Appropriations, covering building needs, have of necessity been made in a more or less haphazard manner. The department of finance, as part of its budget pro-

gram, is now engaged in a detailed survey of all the buildings at state institutions. Reports to be submitted will show date of erection, size, number of stories, kind of material, present condition, and a detailed statement of repair needs. In no other way can building appropriation requests be intelligently determined upon.

Heretofore, the initiative in appropriations has been largely with the legislature. Without the necessary knowledge as to existing conditions and the needs of the various expending agencies, no well ordered method of procedure has been possible. Large lump-sum appropriations have been made in some instances, while the most minute detail has been followed in others. Appropriation bills have frequently been held up until the closing days of the legislature, and then rushed through with little or no opportunity for careful consideration.

The present budget law in Illinois provides for the submission of the executive budget to the legislature soon after it convenes. No reference is made as to procedure. The budget can be referred to regular committees or considered by the legislative bodies sitting as a committee of the whole. The general assembly has the power to revise, amend, decrease, increase or disregard the governor's recommendations entirely, subject, however, to the governor's veto. While the possibility exists for adverse action by the legislature, it is doubtful if it would care to assume the full necessary responsibility under all the circumstances.

It is the intention to develop the Illinois budget into a comprehensive financial program, including the maintaining of accounts, analyzing of expenditures, all leading up to a well founded statement of appropriation needs, together with a study of the sources of revenue necessary to meet such requirements. Under the Civil Administrative Code, a distinct advance has been made in the centralization of authority and responsibility, and to this extent, the practical working out of budget procedure is made possible.



## THE NEW JERSEY BUDGET LAW<sup>1</sup>

ARTHUR N. PIERSON

Chairman, Commission for the Survey of Municipal Financing of  
New Jersey

**A**FTER seventy years' experience with the Legislative Budget, as the instrument for distributing state revenues, New Jersey has adopted the Executive Budget. The Act creating this budget was passed in the legislative session of 1916. It superseded the Legislative Budget for the appropriations made last year, which became operative November 1 last.

Under the new plan, the controller submits his estimate of the available state revenues, and the departments and institutions submit their requirements in detail to the governor prior to November 15. A full explanation is required for all increases and the needs for extensions or improvements. The requests are tabulated and investigated by the governor's own assistants, who can be well designated as his Budget Committee, although their work is confined to the months of November and December.

During December, the governor conducts budget hearings, after which the budget is fixed. In the opening week of the legislature, he submits the budget with his budget message to the legislature. The budget is then referred to the Joint Appropriation Committee, which sits during the legislative session for further hearings and revisions. The Appropriation Committee submits its final report to the legislature during the week prior to adjournment. The budget thus prepared is passed in February or March and becomes operative on the first of November following.

New Jersey has had but two years' experience under the new plan of budget making, but it has already proved its value as a means for a more equitable distribution of state funds and a better control of expenditures; as such it has many features of marked improvement over our old plan, and will, I am confident, prove an unqualified success, and well worth the work involved in establishing the new system.

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<sup>1</sup>Read at the National Conference on War Economy, June 6, 1918.

I appreciate it is too early to predict the full measure of success which will accompany our new plan for budget making, but my three years' experience as a member of the Appropriation Committee under the old Legislative Budget plan gives me something of an insight into its shortcomings and possibly I may be pardoned for pre-judging in a measure the benefits which may be expected from our Executive Budget.

In my first year's service on the Appropriation Committee, this committee was composed of three lawyers, one physician, one farmer, two insurance agents and two business men, only one member having ever had any previous experience in Appropriation Committee work. From my study of the Legislative Budgets in other states, it would appear that New Jersey's experience in this matter is fairly typical of other states. It must be evident that the best results cannot be obtained under such a scheme.

If sectionalism, politics, and "favor me and I'll favor you" could be eliminated from the work of the Appropriation Committee, which is, of course, practically the maker of the Legislative Budget, there would still be enough to condemn this manner of budget-making as a practical means for appropriating state revenues. I have in mind the ever-changing personnel of the Appropriation Committee, which brings to this work men who lack the training and sometimes the ability. These factors constitute an obstacle that must be ever present to greater or less degree in such a scheme for budget-making. It is impossible for such a commission to discern between the good and the bad, the necessary and the unnecessary in any request for funds.

Under our plan for the compilation of our Executive Budget, the responsible head of the government determines the policy for extensions and improvements, and in a general way fixes the funds which are to be allotted to the several institutions. The total of the appropriation of the budget as fixed by the governor must be within the funds estimated as available for state purposes for the year. It is, however, within the province of the Appropriation Committee to revise any items which in its discretion should be amended. At all events, I feel certain that as our governor cannot succeed himself, the danger of political bias has been overcome as far as can be reasonably expected.

New Jersey's Executive Budget, has, however, a wider purpose than that of distributing funds or controlling expenditures. It is a

vital part of Governor Edge's plan for reorganizing New Jersey's administrative and fiscal affairs upon a business basis. In this particular it serves an important purpose in bringing the governor into vital contact with the needs and activities of the various state institutions. Such a connecting link between the responsible head of the government and the activities of the state is essential to a successful administration of public affairs.

While Governor Edge was in the senate, he inaugurated his plan to put the activities of the state on a business basis, making the governor the responsible executive head of the business concern. As the first step in this program, he effected the reorganization and consolidation of some forty or fifty more or less overlapping commissions and boards into six single-headed commissions, thus coordinating kindred activities in the several new commissions. At the same time he organized and established the state purchasing system, which was an important feature of the plan for efficient and economical business government. The program of reorganization has covered a period of four years, and was only completed at last winter's session of the legislature, when all charitable, correctional and penal institutions were brought under the control of a single-headed Charities and Correction Commission. Having served on the Economy and Efficiency Commission with Governor Edge, when he was in the senate, I feel in a measure familiar with the needs which existed for a thorough reorganization of state affairs and the important part our Executive Budget has played in this program.

As yet neither the budget nor the reorganization of our state activities has produced all the good results of which it is capable. It will take time and patience to work out the problems which must necessarily arise in the transition from the old to the new system. As capable of good results as the Executive Budget is under ordinary circumstances, the double purpose which it serves in New Jersey increases many times its possibility for good.

At this point, however, I am led to make a suggestion which is applicable to New Jersey's budget as well as to every form of budget, and to my mind, indispensable to the best budget results. I refer to a permanent budget commission to be appointed by the governor and directly responsible to him, composed of experts or specialists in the several branches of institutional work. The members of such a commission should be employed the year

around; the greater part of their time to be spent in field work, making unannounced visits to the institutions and even living there for such periods as will give them a definite knowledge of the work and the needs of the institution.

My experience with state and municipal budgets has brought me to the conclusion that the successful outcome of a budget system depends to a far greater degree upon the ability and earnest purpose present in the making than upon its form or plan. In other words, it is the man behind the gun who brings the results. To my mind, we have placed far too much emphasis upon the form or plan of budget, and paid too little attention to the care and intelligence used in its making, and the integrity with which its provisions are carried out. The budget in itself appeals to me much as the plan and specifications of a building; they are good or bad, according to the measure of intelligence and honest purpose with which they are made, and I think we shall agree that they will produce results, all things being equal, in the proportion that these factors are present. Such a budget commission would be of great assistance to the Appropriation Committee in making the Legislative Budget, and on the other hand, would prove of great value to the governor and the Appropriation Committee in making and perfecting the Executive Budget. The assistance of such a commission would find an added purpose in New Jersey alone in keeping the governor in constant touch with the activities and needs of the institutions. A commission of this kind, with their knowledge of the state's needs, would be of great value to the purchasing department in the standardization of supplies.

There are one or two features in New Jersey's budget scheme which have been in the process of evolution and adjustment for the past few years. Up to a year ago, New Jersey followed the policy of detailed appropriations with scarcely a deviation. In 1915, however, we overcame some of the unyielding provisions of the detailed budget by giving the State House Commission authority to transfer items within department appropriations. This flexibility proved a timely expedient in adjusting conditions created by the war and saved our institutions from much embarrassment.

It has been a time-honored practice to pass a supplemental bill at each session of the legislature. This practice brings about the same unsatisfactory conditions as exist in other quarters, and I am inclined to believe to a degree destroys the incentive for econ-

omy in administering institutional affairs. It has always been looked upon with favor by our institutions, as this gives them two chances at the state treasury. The supplemental budget has with us had some justification; as in the past, requests for funds were filed a year previous to the operation of the budget, which, under normal conditions, makes a scientific distribution of state funds and the administration of institutions somewhat difficult. It has tended to make the Appropriation Committee careless and provided a ready means of pushing its responsibility on to its successors.

When New Jersey adopted its Executive Budget, we determined to get away from a supplemental or emergency budget, but not until last winter were we able to accomplish this purpose. In 1917, to meet the unforeseen requirements arising from our entrance into the war, we granted a lump-sum emergency appropriation, and placed its distribution in the hands of the State House Commission, which is composed of the governor and the heads of the several departments; this provided relief for many trying conditions which could not have been foreseen in either our annual or our supplemental budget.

Last winter, we changed our fiscal year from November 1 to July 1, thereby bringing the operation of our budget four months nearer the time for filing requests for funds, and within three months after its final adoption. By thus bringing the operation of the budget within a reasonable time after its passage, and with the means of relieving the distress of unforeseen conditions through our emergency fund we were able to do away with the supplemental appropriation bill for the first time in several generations.

I appreciate that the power given the State House Commission to transfer appropriations and the expenditures of our emergency fund does violence to the theories of that school of budget making which adheres strictly to the detailed or segregated budget. I will, for the moment, accept this plan of making appropriations, but in so doing, must ask its defenders to accept with it the necessity for more care and intelligent thought in the making than is given the average budget, whether executive or legislative. I recognize the force of the argument in support of the segregated budget and freely admit that the carefully detailed appropriations bring the expenditures of such a budget under more definite control. I am inclined to the belief that the lack of flexibility of such a budget

surrenders economy and efficiency in its operation. At the same time, we must admit the force of the argument on the other side, viz., that those who know most about an institution can best administer its affairs, and that a detailed budget destroys the incentive and even the opportunity for the exercise of initiative and executive ability. In other words, it makes the executive head or board of managers of an institution simply the errand boys of the budget and its makers; in short, I will accept the detailed budget only after the most positive assurances that it has been intelligently made.

To sum up my conclusions, I am a firm believer in the Executive Budget. It has proved to be a vital part of our plan for a business administration of state affairs. It appeals to me as a step in the right direction, but I wish to emphasize again my unbounded faith in a permanent specialized budget commission as the necessary adjunct to, or rather as an indispensable part of any budget plan. I believe this will prove true in New Jersey, as well as in other states, as I am convinced that no budget will be the instrument for a scientific distribution of state funds until it has the support and guidance of such a commission.

## DISCUSSION OF THE NEW ERA IN BUDGETS

VICTOR MORAWETZ, New York city, presiding: The popular meaning of the word "budget" is decidedly vague. Almost any more or less detailed, more or less accurate estimate of expenditures during some more or less definite period of time is commonly called a budget. For example, a few days ago a friend stated to me that she kept a budget of her personal expenses for each quarter, and she said that it always came out right because every evening she added to her budget any expenses which she had forgotten. I asked her how she managed to make this budget balance with her income. "Oh," she said, "whenever I exhaust my bank account I just stop paying cash and have things charged, and then add the things charged to my next budget."

Of course students of government do not use the word "budget" in this loose though perhaps convenient sense. To them a governmental budget means a complete, detailed and accurate estimate of all the contemplated expenditures of the government during the next fiscal period, together with a complete and definite plan for meeting those expenditures.

Moreover, students of government recognize that a sound procedure for the preparation, the initiation and the adoption of a budget is a matter of as great importance as the budget itself. The chief executives of government, the president, the governors, and the heads of the various municipalities throughout the country have charge, or should have charge of the conduct of the affairs of their respective governments and of the expenditure of the government funds, for which they should be made politically accountable. Without a sound and well regulated budget procedure it is impossible to hold these executives to this responsibility. A sound budget procedure, therefore, involves first, the preparation of the budget or financial program by the chief executive in collaboration with his several heads of departments, and its submission by the executive in its completed form to the legislative branch of the government; second, the executive shall have ample opportunity to appear publicly before the legislature, sitting as a committee of the whole, to explain the budget, to meet criticisms, and to take an active part in perfecting it; third, the legislature shall have power to reduce or cut out items, but no power to increase items or to add items which the chief executive does not want, and for which, therefore, he cannot be held responsible.

This in brief is the system which has been adopted in every civilized country, I believe, excepting our own. It is only an adaptation of the methods universally applied to the conduct of large business enterprise. Any business man would scout the suggestion that the financial plan of his company should be formulated either by one committee or by half a dozen committees of his board of directors, in the absence of the president who has charge of its business, and that it should then be adopted by the board of directors without consulting the president. Yet that is sub-

stantially the procedure of our national government and of the governments of most of our states and municipalities.

The procedure in vogue in the United States was developed early in the history of the country as a result of political conditions. In consequence of this, a large part of the people, including many of our legislators, seem to think that it is a natural procedure. They fail to appreciate how utterly unbusinesslike it is, how demoralizing to the legislators, and how subversive of all good government.

One of the most important functions of institutions like the Academy of Political Science, the Bureau of Municipal Research, and the Institute of Government Research, is to make the voters understand the extreme importance of adopting a more sound and businesslike method of preparing and accepting financial plans for the budgets of their respective governments.

MR. ROBERT DOWLING, of the New York Real Estate Board: The method for so many years of keeping a large amount of expenditures out of each annual budget was by issuing long-term bonds. The Real Estate Board is not in favor of issuing bonds for temporary improvements, even for school houses. It is in favor of the "Pay-as-you-go" policy for the City of New York.

For the past twenty years since consolidation, we have had an increasing tax rate, a rate that began in 1902 or 1903, when we increased our assessed values. Under the former method about two-thirds of the real value was assessed, while at present property is assessed presumably at one hundred per cent of the market value. I should say that the City of New York is now over-assessed. Competent judges have thought that we are assessed as high as twenty per cent over the real value.

We have suggested various means of saving money, but we all know with what results. The city's expenses have increased year after year. We have a 2.36 tax rate in New York city. A limitation in the constitution of the state of New York limits cities to an annual expenditure for local purposes of two per cent of the assessed value of the property within the city limits. The addition above two per cent now is for meeting the debt service and the state taxes. I am informed that the 2.36 rate today means 1.66 for local purposes and .70 for state taxes and debt service. We are within thirty points of the limitation fixed by the constitution and we are perfectly willing to reach the limit of two per cent. Then we are stopped by the constitutional provision, not in the charter. Very few people in New York seem to know that the constitution fixes that limitation. Last winter when I was appearing before some of the senate committees I was told by one of the leading senators of the state that the limitation was in the charter, but it is in the constitution of the state of New York.

While this war continues, while the cost of labor and materials is at least one hundred per cent over what it was in 1914, this expenditure should stop. We should utilize the plants that we have, whether for schools or any other purpose. We can use them. We are not getting the use out of our properties that we would if we were a private business. The city



is collecting from real estate over \$100,000,000 annually beyond what it collected in 1903. It is collecting in personal taxes \$4,000,000 to \$5,000,000 less than it collected in 1903. We propose that the City of New York be limited in its expenditures by the legislature, which has that duty put upon it by the constitution. That also has been forgotten. The legislature is specially directed by the constitution to limit the expenditures of cities, and it has done nothing, so far as I know, to accomplish that. It has done nothing but increase the expenses.

At the last session the Committee on Taxation and Legislation, of which I am chairman, presented a bill to fix the tax rate in New York city at 1.75% and fix a 2.0005 tax on personal property in this city. There is something awry when \$4,000,000 of personal taxes was collected in the City of New York in 1916, and the same district now pays \$900,000,000 in income taxes to the United States government.

We do not endorse any system of issuing bonds for these improvements. We are in favor of charging it to us in the annual budget. We prefer to pay the additional taxation rather than to have this debt heaped upon the City of New York. We can watch the budget each year much more easily if it includes \$15,000,000 or \$20,000,000 than if bond issues to those amounts are made. We are opposed to the plan that Controller Craig has advocated here. We are perfectly willing to accept the burden fixed by the constitution.

FRANK J. GOODNOW, President of Johns Hopkins University: I have noticed that in the remarks which have been made with regard to a budget it has been spoken of as a program of work for the next ensuing fiscal period. The Maryland budget amendment does not regard the budget in that light, and it is going to be difficult for any state budget or for any budget that may be adopted for the United States to be so considered. If an executive budget law takes away from the legislature the right to increase any of the estimates which have been made by the governor, at the same time the governor must be required, as he is required by the budget amendment of Maryland, to present not so much a program of work to be done, as a plan for financing an organization already in existence. If you have no system of cabinet government as it exists in England, where the budget system originated, a governor can, by refusing to estimate for any enterprise to which he is opposed, disrupt the entire state administration. Suppose that under the law a public service commission has been provided with certain functions to discharge, and with salaries fixed. Can the governor, by refusing to put in any estimate for the public service commission, wipe it out of existence? That is the result of considering the budget as a program of work. It can be a program of work to be done for the next fiscal period, that is, a program of work to be done under the discretion of the governor, only where the legislature has some power to put the governor out of office. It does not have such power under our system where the governor refuses to provide for an administration as fixed by law. We have attempted to provide that the governor must put in estimates for the organization as it is under the law. As Governor Harrington has

pointed out, the governor may accompany that statement and estimate with the suggestion that such offices be repealed, but we prevent the governor from assuming power, through the power of estimate, so as to disrupt the governmental organization of the state. That is one of the things to guard against in this budget movement, so long as we retain the principle of the separation of the powers of the governor and the legislature.

Furthermore, I think Dr. Cleveland is absolutely right as to the necessity for making some provision for an intelligent and effectual consideration by the legislature of the estimates that may be put in by the governor; and, in order to complete this budget movement successfully, we must make provision for some such officer as the controller and auditor general in Great Britain. I think it can be done easily by a mere extension of the powers of the ordinary controller. Through the adoption of a system of responsibility to the legislature in cases where we are giving the governor the power to omit from his estimates anything that he sees fit, and with the provision for a more effective control by the legislature over the estimates of the governor, I think we shall work out a scheme that will greatly improve the fiscal organization and administration of our state and federal government.

## CAPITAL ISSUES FOR STATE AND MUNICIPAL DEBTS AND THEIR RELATION TO WAR FINANCING<sup>1</sup>

PAUL M. WARBURG

Vice-Governor, Federal Reserve Board

**I**NTELLIGENCE is a question of priority. It is a question of seeing a thing sooner than the other fellow. When once a thought has been clearly conceived and expressed, when once it becomes public property and is generally understood, it becomes trite and obvious. So also the winning of the war has become a question of priority.

After a four years' struggle, during which over \$112,000,000,000 have been spent, the question of the original state of preparedness has lost its significance in its bearing upon the final outcome. That side, however, has the best chance of winning which, in the long run, will prove the quickest to foresee, and to grasp, the constantly shifting problems of the struggle and to take the steps necessary to master them, whether or not they are of a military nature. As the President said in his splendid appeal for thrift on May 29, "This war is one of nations—not of armies." Modern warfare has become a struggle of resources and industries as much as a struggle of men, and it involves, therefore, not only the millions that actually serve in the field, but the hundreds of millions that stay at home. It means that no country has any chance for victory that refuses to organize its entire population so as to concentrate its thoughts and efforts upon winning the war. In order to triumph, the rich and poor alike must realize, before it is too late, that the government has the first call on our sons, our services, our goods and our savings; that it is entitled to every available ounce of material and man power.

England began the war with the slogan of "Business as usual"; it took many fateful months until the country fully accepted Earl Kitchener's view: "Either the civilian population must go short of many things to which it is accustomed in times of peace or our

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<sup>1</sup>Read at the National Conference on War Economy, June 6, 1918.

armies must go short of munitions and other things indispensable to them." Today there is no one who would take issue with Lloyd George's striking statement that "Extravagance costs blood; the blood of heroes." I believe it is freely admitted today that England's failure to adopt from the beginning the point of view of these eminent leaders and to appreciate at an early stage the duties devolving upon the civilian population in times of modern warfare has been the cause of loss to her of untold life and treasure. But while England was dealing with wholly unprecedented conditions, justly baffling the ablest minds, we who have the advantage of her dearly bought experience should stand convicted of a very grievous crime if we lost precious time in adjusting our minds to a full realization of our civic duties at this juncture.

In time of war nothing is more dangerous and more fatal than delay. The present emergency requires that the country be aroused to a thorough consciousness of the fact that whoever uses material, credit, labor or transportation unnecessarily is placing a handicap upon his government in its efforts to complete its preparations as speedily as possible. Instead of aiding the government he competes with it, bars its way, and is guilty of delaying its progress towards victory.

It was for the purpose of curbing such waste of the national resources that the British established their Capital Issues Committee, and that a similar committee was organized here about five months ago. Both committees deal only with cases involving the sale, or offer for sale or subscription, of securities (any sale in excess of \$100,000 in stocks or bonds falls within the scope of the American committee's operations). In so far, however, as the great national task of encouraging economy and thrift is concerned, the underlying principles are the same whether we deal with individuals, with industrial and public service corporations, or with states and municipalities, except only that those principles apply with so much greater force in the case of states and municipalities, not merely because the sums involved are likely to be so much greater, but also because the example given by these governmental authorities exercises a powerful influence—for good or for evil—in molding the civic mind. It is for this reason that I am particularly grateful for the privilege accorded me by the invitation to speak upon the topic of Relations of Federal War Financing to the Capital Issues of States and Municipalities and

to be permitted to address a conference which counts amongst its participants so many men prominent as leaders in the public life of their communities — governors, controllers and mayors, whose very presence will insure the widest possible interest in the proceedings of this conference.

When the Federal Reserve Board's Capital Issues Committee, at the request of the secretary of the treasury, undertook to deal with the question of controlling and curtailing capital issues, it established as one of its first principles that every expenditure not strictly compatible with the public interest of the United States—that is, every expenditure not directly helpful to the prosecution of the war, or absolutely necessary for the health and reasonable comfort of the people, ought to be abandoned for the time being. The Capital Issues Committee was mindful of the fact that it was self-constituted and acting without express authority of law, and that it could secure results only by enlisting the voluntary and patriotic co-operation of all concerned. I am frank to admit that when the committee began its operations its members were not at all certain that they would not meet with determined opposition on the part of certain groups of industries which, of necessity, would be seriously affected by its rulings. It is a genuine satisfaction to be able to state that, from the very beginning, the committee met with nothing but the most patriotic response. No matter how important or vital any particular issue may have seemed to the applicant when he first presented his case, and no matter how insistent he may have been in the assertion of the prime importance of his individual requirements, nevertheless, whenever the committee, or one of its sub-committees, explained the true significance of the problem and the principles which it was necessary to apply in order best to serve the country, it never failed to awaken that finer spirit that willingly subordinates individual advantage to the national welfare. The American Bankers' Association, the Investment Bankers' Association and the leading stock exchanges of the country assisted the committee greatly by immediately passing resolutions to the effect that their members would not place, or deal in, any securities coming within the scope of the Capital Issues Committee upon which it had not first favorably passed. The committee was also greatly helped and encouraged by the fact that the authorities of some leading communities promptly made it known that they would do every-

thing in their power to co-operate. As soon as the committee was organized the Honorable A. J. Peters, Mayor of Boston, visited it in person in order to determine in what manner he might best assist its work. In his inaugural address, delivered on February 4, he set forth principles that have already proved an inspiration to many, and will continue to guide many more. He stated:

The gigantic task which we are called upon to perform is one which requires the mobilization of all our resources, material and moral. We cannot all of us fight for democracy on the plains of France. We can all help win the battle for democracy by our loyalty and sacrifice at home. To be effective the national government must have the co-operation and support of every unit of government, state and city. The great municipal agencies must shape their policies to strengthen and support the central power.

The support which our municipality pledges to the national government can nowhere be more effective than in the field of finance. The enormous and imperative needs which the national government must meet by the sale of bonds require that the competition in the sale of securities by other agencies should be restricted as far as possible. The Federal Government is entitled to the first call upon every dollar available for investment, just as much as it is entitled to the first call upon every man available for military service. Local bonds must necessarily compete in the market with national securities, and their issue, therefore, should be restricted to the lowest possible amount.

Early expressions of this character were invaluable because it was fully recognized by the committee that it had no power of law whatever to restrict or interfere with the rights of states or municipalities to raise funds for any purpose they desired, and that only by enlisting their voluntary co-operation could it hope to obtain the best possible results. This is true even though it was realized that the pledge of the stock exchanges and issuing houses was likely to be a very important factor in securing the co-operation of the few who might otherwise have been unwilling to join in the general effort to conserve the national resources.

The War Finance Corporation Act, which gives to the Capital Issues Committee legal standing, continues to preserve this voluntary character. The bill, as originally introduced, vested the committee with power to punish those who would not submit to its rulings. Congress, however, in eliminating this provision, expressed the conviction that it was safe to rely upon the patriotism of the people of the United States to co-operate of their own accord without the threat of punishment, just as the British co-

operate with their Capital Issues Committee, an organization which likewise depends entirely upon voluntary support.

In dealing with states, municipalities or counties, the Capital Issues Committee considered mainly expenditures for the following purposes:

- Hospitals
- Schools
- Sewers
- Filtration plants
- Municipal buildings
- Electric light plants
- Roads, parks and bridges.

When considering applications of this character, the committee made it a rule to seek advice from the federal department boards and commissions having particular knowledge in the premises, for the purpose of determining whether or not the expenditure involved was essential for the successful prosecution of the war, or for the health and necessary comfort of the people. Except when acting upon securities issued for the purpose of providing funds for the renewal of maturing obligations, only those cases that were found to be compatible with the public interest, as above defined, received the approval of the committee. In reaching its conclusions it observed the broad principle that the use of capital, material or labor could be justified only where results could be expected within a very reasonable time. Thus, applications for roads were acted upon favorably only when it was satisfactorily established that they were of military importance, leading to camps, docks, or shipbuilding plants or establishments producing materials necessary for the prosecution of the war, or whenever they were shown to be important from an agricultural standpoint in order to open up agricultural districts or to make their products available for ready distribution. In the case of schools and hospitals the committee sought the advice of the commissioner of education or the surgeon general as to whether or not new buildings were absolutely required and if so whether or not temporary buildings could be used instead of permanent ones, as temporary buildings absorb less material, less labor, less transportation and less money. Monumental buildings and parks or bridges merely involving greater comfort or luxury were disapproved. In many instances the controllers of certain cities and

states consulted with either the central committee or the sub-committee of their district, discussing their budgets item by item, and almost invariably these conferences resulted in the elimination of unnecessary expenditures and a substantial reduction in the estimated appropriations. It is a great satisfaction, therefore, to have this opportunity of publicly expressing appreciation of the splendid spirit of patriotism shown by these states and municipal administrations.

This leads me to the complex question of the relationship of the state and municipal governments to their various public service properties. Almost everywhere there are outstanding at this time franchise and contractual obligations for the building of new subways and surface car lines, or for the furnishing of additional supplies of water, electric light, power, heat and gas. In the majority of these cases the national interest at this time requires that every effort be made to reach an understanding by which such construction may be postponed unless indeed it serves the successful prosecution of the war and the health and necessary comfort of the people. We need the men and the steel to build our ships rather than to build new subways. We need the coal and electric power to drive the wheels of our war factories rather than to give more light for advertising displays or for other non-essential uses. To a certain extent it is true that this new construction is being restricted by the Priorities Division of the War Industries Board, which controls the sale of articles such as steel and copper so as to prevent their being employed for purposes incompatible with the public interest. But both for the Priorities Division and for the Capital Issues Committee it is a difficult task to deny the use of these materials, or the necessary capital, where it can be demonstrated that by reason of such denial the companies affected may be embarrassed to the point of defaulting on their contractual obligations. I hope it will not be considered presumptuous on my part if I venture to urge that all state and municipal governments do their utmost wherever possible and practicable to find a *modus vivendi* for their public service corporations and help them to reach agreements whereby onerous or unnecessary contractual or franchise construction obligations may be waived or held in abeyance at least for the period of the war. In doing this they will effectively support the work of the federal government. Irrespective of the release of labor and material involved, it is obvious



that the community itself will best be served by postponing as much work as possible until a time when prices will be lower and when, in addition, there will exist the need of finding employment for the surplus of labor which may be expected upon the termination of the war.

The drastic shrinkage in the value of public utility investments and the impairment of the credit of these corporations is a source of grave danger to the general financial situation at this time. We need the savings of the investor and it would be a serious menace to the ability of the government to finance the war if public service corporations, strong and solvent before the beginning of the world conflagration, should be forced to go into receivers' hands because of conditions for which they are not responsible. Their credit must be maintained both on account of innocent investors and on account of the necessity of preserving the physical development of corporations whose operations are needed on account of their direct and indirect effect upon the successful prosecution of the war or the health of the people.

Franchises in many cases have become excessively onerous for such corporations, due to the fact that labor, coal, steel and copper can be secured only at exorbitant prices, while the charges for services rendered often cannot be properly adjusted without the consent of the community involved. The president, in his letter to Secretary McAdoo, dated February 19, 1918, expressed his profound concern over this situation, stating at the same time that he hoped that state and municipal administrations would make every effort to deal with these corporations in a spirit of liberality. All that it is proper for me to do, therefore, is to emphasize the public interest in the protection of the credit of these corporations and in the preservation of their ability to perform their important functions.

When the old Capital Issues Committee first undertook its work it arranged for a conference with public service commissioners representing various states of the Union. The committee was delighted to find that these state commissioners were not only open to the suggestions made by the committee but that they were in fullest sympathy with its program and eager to co-operate in every possible respect.

It is gratifying to note that a number of leading municipalities, after a careful study of this problem, have since decided to

make such equitable adjustments as to enable their public service companies to weather the storm, and it is hoped that their example will be emulated all over the country.

The thought may have occurred to many that the War Finance Corporation has been created to cope with this very problem. Without attempting to speak for the War Finance Corporation and restating only what its directors have publicly expressed, I may say that this corporation, in the majority of cases, expects to deal only with concerns that are solvent and able to provide a bankers' guaranty. The amount that may be advanced without that guaranty is strictly limited by law and it is safe to assume that, except where the public interest absolutely requires, the corporation will not consider itself warranted in making advances to companies on the brink of insolvency. Therefore, where advances from the War Finance Corporation are to be sought, it appears advisable that the communities involved should first do their share in placing their public utility companies on a basis upon which they may be at least self-sustaining.

It cannot be denied that state and municipal authorities enforcing economy are often faced with a difficult task. At times it may be very hard indeed to resist the local clamor for improved public service and the pressure brought by those interested in the granting of new contracts. Such cases have come before the committee. There were instances where the necessity for new roads was not so urgent as the desire of the contractor to secure the work, and in some districts architects or builders were more anxious than conscientious public authorities to build schools. In those cases, the support given to the local authorities by the committee often was of the greatest value to them. The Federal Reserve Board's committee was always ready to shoulder the responsibility of protecting the national interest or to take upon itself any blame for the consequences of its action. I am quite certain that I am expressing the views of the new Capital Issues Committee in saying that it will continue to proceed on the same lines. May I urge, therefore, that state, county and city officials avail themselves of the services of the Capital Issues Committee in the freest possible manner? It is very important that this should be done, not merely when the securities are about to be issued, but especially before the expenditures and the contracts are

authorized. It may be embarrassing for the Capital Issues Committee to decline approval of an issue contemplated for the purpose of liquidating a banking obligation previously incurred, except indebtedness incurred prior to April 5, 1918, in accordance with the provisions of Section 203 of the Act of April 5, 1918; but you can readily see that if the committee did not stand ready to disapprove bond issues to be made in liquidation of a banking debt previously incurred for some purpose incompatible with the national interest, some corporations and municipal authorities might soon adopt the practice of first creating the debt and then forcing the hand of the committee.

Curtailment of expenditures involves automatically a proportionate reduction in the amount to be raised by the sale of securities, and to that extent it means that local administrations refrain from competing with the federal government for the savings of the people. I need not enlarge on that important point except to say that if at present it is proper for all corporations to avoid this competition with the government, there is all the more reason for states and municipalities to do so because the majority of the securities sold by them are exempt from federal taxes. The federal government, instead of continuing to issue  $3\frac{1}{2}\%$  tax-exempt bonds, has adopted the policy of selling  $4\frac{1}{4}\%$  bonds only partly tax-exempt, and is willing to pay the higher interest rate for the purpose of keeping as unrestricted as possible its field of comprehensive taxation. While I do not question the legal right of the states to issue tax-exempt bonds, we must recognize that to the extent that a state issues such tax-exempt securities, it deprives the federal government of the taxing power so essential for the public welfare in this emergency. All the more sacred, therefore, is the obligation imposed upon local governments issuing such tax-exempt bonds not to authorize any issues except those absolutely necessary for the immediate welfare of the community.

May I, in passing, dwell upon an additional reason why it is of the utmost importance to reduce to the minimum the issue of securities at this time? It is on account of their bearing upon "inflation," a problem with which it is impossible for me to deal exhaustively within the limits of this address.

<sup>1</sup>The pernicious consequences of inflation are a rapid increase in prices, and a corresponding decrease in the purchasing power of money. As the increase in prices progresses, the amount that governments must borrow grows correspondingly. It becomes a neck and neck race between a fictitious wealth and a reduced value of what that wealth can buy in labor and in goods. It must be our aim, therefore, to restrict inflation to the smallest possible scope compatible with the achievement of our national purpose—the successful prosecution of the war.

From an economic point of view, it is considered unsound and unbusinesslike for any one to issue his obligations for things of no permanent value. No corporation would think of issuing bonds against the coal that has been consumed in producing its finished article or against wages that have been paid; nor would you or I, at the end of the year, treat as an asset the food that we have eaten or the suit of clothes that we have worn and thrown away. That, however, is what all belligerent governments are doing and what, under present circumstances, they are obliged to do. This process must lead to economic disaster wherever the waste of the government is not counterbalanced by increased economy on the part of the people. We must bear in mind that the production of permanent values in normal times is accompanied by a certain amount of necessary and unnecessary wastage, such as the consumption of goods, food and clothing, in quantities beyond what is necessary for the production of the article and expenditures for the comfort and luxuries. The necessary material and labor put into the article produced, plus the incidental wastage of goods, and plus a reasonable profit, constitute in normal times the value of the properties added to the assets of the world. This normal wastage must be reduced as the abnormal wastage of the government increases. If this policy is carried out consistently the speed with which inflation proceeds is thereby reduced proportionately.

To sum it up in its simplest form: on the one side of the balance sheet of the world corporation are all the things unconsumed; on the other side are the dollars. If the dollars increase rapidly and if the "things" do not increase—or if indeed they

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<sup>1</sup>This is a partial quotation from my paper, "Save and Subscribe and Save the Country," published on April 28, 1918, in which there was presented a fuller discussion of the various aspects of inflation.

decrease—there must ensue inflation of prices. The means to counteract inflation are, therefore, on the one hand, increased production and decreased consumption of “things” and, on the other, a slowing down in speed and volume in the creation of new dollars in the form of new securities, currency or credits. The more we save, the more do we increase the amount of “things” on the one side of the ledger and the more may we hope to succeed in keeping their price down, decreasing thereby the amount of new dollars to be issued in payment. It follows that inflation is not a question merely of banking or currency, but a question fundamentally of saving.

The duties of the state and municipal governments with respect to this great national problem are easily perceived from the foregoing. By curtailing expenditures to the utmost, they not only conserve to that extent goods, labor and transportation, and make the savings of the people available to the federal government, but in addition they avoid the guilt of becoming factors in the further increase of prices and of aiding the process of inflation through the issue of additional securities.

There exists on the part of many some hesitation to co-operate without reserve in this effort of saving, because they fear that consistent saving and curtailment of credit may create great hardships and subject many people to the cruelties of unemployment. I am profoundly convinced that we have no right to let this thought prevent us from going the full length in our drive for economies. When we have under serious contemplation the withdrawal from peaceful occupations of between two and five million men at a time when the country is in such urgent need of such immense quantities of goods that our mind is not capable of picturing them, and when it needs these goods with the least possible delay, fear of serious unemployment need not be entertained. It is true that for some time to come there must be a continuous shifting of men and women from one occupation to another. When there is a shortage of thousands of carpenters in the shipyards, farm hands, who are generally trained to tinker in all kinds of arts and crafts, will be drawn into these yards and their places in turn will be filled by other classes of day laborers. If the women should decide, as I trust they will, to spend less than in the past upon all kinds of fineries, some girls may lose their places as dressmakers and seamstresses, but, as a result, there will be

found large numbers of them running elevators, or doing clerical work, or serving in munition factories. No doubt there will be temporary and unavoidable hardships connected with this shifting process, but this is one of many sacrifices that we must be willing to bear. Organized labor realizes these conditions and the members of the Capital Issues Committee who met with representatives of their organization were deeply impressed by their patriotic, courageous and statesman-like point of view. At the same time the Department of Labor is trying its utmost to complete its machinery for directing and assisting in this readjustment of occupations while other agencies of the government are devoting themselves to the task of guiding industries away from the production of less essential to essential goods.

Nothing can be more detrimental to the successful accomplishment of our industrial war program than the effort to leave undisturbed the industries that cater to the extravagant tastes of all classes. The argument that it is necessary to keep on selling luxuries in order to finance the war is too preposterous to be considered seriously. In times of war we do well to remember the wise expression of old Diogenes, who said: "How many things there are in the world that Diogenes can do without." That applies to the life of the individual as well as the community as a whole. The people of the United States who stand ready to give their all to win this war will cheerfully forego unnecessary comforts and luxuries when once they fully grasp the real significance of economy in this emergency. If they have not yet begun to do their full duty in saving, it is only because they have not had it sufficiently impressed upon their minds that saving is not a petty matter but that there is glory in saving, that saving has an immediate bearing upon the question of victory and defeat and of life and death, and that at this time it is the biggest contribution the civilian population can make. We must train ourselves to visualize the cumulative result of individual and communal thrift, in the light of which the smallest contribution assumes its true importance. It is not difficult to wear old clothes instead of ordering new ones, when we impress it upon our minds: that (our factories being busy day and night in producing the things needed for the war) there are available only few goods which can be sent to Argentina in payment for her wool; that we have no ships to spare, nor gold; that we—that is, the group of Allied powers—

need Argentina's wheat and meat and wool, or Chile's nitrates or Peru's copper; that through our being short of goods to sell to neutral countries, the value of Allied currencies as reflected by the exchange rates in neutral countries has depreciated so seriously that we can continue extensive purchases in neutral countries only to the extent that they will grant us loans to cover our debit balances. It is true that most of those neutral countries are as anxious to sell their goods as we are to secure them, or even more so, and that, therefore, these neutrals are as vitally interested as we in bringing Allied exchanges back more nearly to normal rates and in granting us credits that will enable us to buy and pay for their goods. But in the nature of things, these credits must be limited by the amounts that these countries can afford to loan and, as far as short loans are concerned, by the maximum amount which we may safely obligate ourselves to release in gold to them upon the conclusion of peace.

It is impossible within the limits of this address to give a full presentation of the many phases in this question of foreign exchange. Suffice it to say in this connection that in saving goods we accomplish three things—first, we decrease the volume of things we must import; second, we increase the volume of things we may export in payment of imports; and finally, even though present lack of transportation facilities may serve to prevent us from shipping all available goods, we nevertheless accumulate a most valuable reserve stock of raw materials and finished products. If Joseph could return today and foretell the future to Pharaoh, he would predict that at the end of this war there will be a great famine of raw materials and he would urge those in power to acquire and store up whatever surplus of foodstuffs, cotton or other similar raw materials the country might be able to save and accumulate. As far as our own position is concerned, such reserves of goods will prove of the greatest value during the war in adjusting our foreign balances, and a most effective protection for the coming period of the after-the-war trade struggle. *Whoever controls the raw materials will hold the key to commerce and finance*, not only because he who can sell goods need not send gold, but also because control of raw materials will give an invaluable advantage to the manufacturer competing in world markets. Our gold reserve at this time is the financial backbone of the Allied cause; let us add to our "gold" reserve a "goods" reserve. Maybe

that Joseph would add this further admonition: that the necessity for saving will not end immediately upon the conclusion of peace but that for years thereafter thrift will remain a national requisite to be practised as scientifically and as cheerfully as was our far-famed extravagance in the past.

It is impossible to do justice to the topic allotted to me without demonstrating as vividly and as convincingly as possible the all-importance of individual and communal thrift and economy for the present and future welfare of the country. The bigger the lines on which we conceive this problem, the easier will it be to arouse the entire country to support the United States in the accomplishment of its difficult task.

Owing exclusively to the iron pressure of necessity caused by the British blockade, and to the consequent enforcement of a rigid system of rationing, Germany has been able to perfect a plan of complete industrial mobilization and of the greatest possible individual and collective thrift and economy. If it is true that "Intelligence is a question of priority," we may say with equal force that "Priority is a question of intelligence." Shall we be able to see soon enough in what respects we must give the government the right of way? Shall we be able to see our duty clearly enough to perfect this great plan of conserving our natural resources by creating our own voluntary blockade around extravagance and waste? Can we co-ordinate by voluntary agreement all the independent forces of state and municipal administrations, so as to secure the efficiency of autocracy under the flag of democracy? It is a difficult task, but one that is beautiful and inspiring, and when once our people grasp its full meaning, they will never let go until it is accomplished.

Nothing will have a stronger effect in molding their minds than the sight of their own authorities restricting public expenditure, and denying public comfort, for the greater benefit of the nation. Individuals will save in the small things when governments demonstrate their determination to save in the big ones. If governors and mayors and those who share with them the responsibility of administering our commonwealth, instead of permitting themselves to be placed on the defensive by apologizing for savings effected by them, will make themselves bold and enthusiastic leaders in this movement, inviting the people to co-operate with them



to the utmost of their ability, we shall have taken a long stride toward winning the war.

CAPITAL ISSUES COMMITTEE OF THE FEDERAL RESERVE  
BOARD—SUMMARY OF ISSUES ACTED UPON JANUARY 12  
TO MAY 17, 1918.

	Municipal	Public Utility	Industrial	Total
Amount considered....	\$86,878,512	\$172,069,605	\$219,510,269	\$478,458,386
Amount disapproved...	19,791,665	6,000,000	39,900,000	65,691,665
Aggregate approved....	\$67,086,847	\$166,069,605	\$179,610,269	\$412,766,721
Less "refunding".....	21,392,312	125,860,284	111,411,900	258,664,496
Aggregate new issues..	\$45,694,534	\$40,209,321	\$68,198,369	\$154,102,224
New issues last year same period.....	108,952,865	107,504,075	287,754,684	504,211,624
Analysis of new issues approved:				
Amount original applns.	\$65,486,199	\$46,209,321	\$108,098,369	\$219,793,889
Amount approved.....	45,694,534	40,209,321	68,198,369	154,102,224
Curtailment effected...	\$19,791,665	\$6,000,000	\$39,900,000	\$65,691,665
Analysis of applications informally discouraged:				
Number .....	8	3	6	17
Amount .....	\$8,915,000	\$7,360,000	\$3,590,000	\$19,865,000

## THE PAY-AS-YOU-GO POLICY IN NEW YORK CITY<sup>1</sup>

CHARLES L. CRAIG

Controller of the City of New York

THE so-called "Pay-as-you-go" policy for the City of New York, which has been practically abolished by recent legislation, can be understood only in the light of conditions existing prior to its adoption. This policy was first put into effect by resolutions adopted by the Board of Estimate and Apportionment in September 1914, and was afterwards made mandatory by an act of the legislature, passed in the early part of 1916.

On May 13, 1918, Governor Whitman signed a bill, which then became a law, suspending the operation of the previous statute for the period of the war and for one year thereafter. For all practical purposes this may be regarded as its total repeal.

From the earliest times it has been the policy of the City of New York to meet the expense of public improvements of an enduring character, such as public schools, hospitals, engine houses, police stations, correctional institutions, courts, water supply, docks and rapid transit, by the proceeds of the sale of long-term bonds, commonly known as corporate stock. The longest period for which such corporate stock has been permitted to be issued is fifty years. Provision is made for the payment of interest on such corporate stock, and its redemption at maturity, by including in the annual tax levy of each year a sum sufficient to pay the interest for that year and to provide a sinking fund which at maturity shall equal the par value of the corporate stock. In this manner the cost of such public improvements of an enduring character was spread over the life of the improvement, and those who enjoyed the benefits from year to year made payment therefor in the tax levy of such year.

In theory, at least, this was a just apportionment of the costs and benefits of such public improvements. The difficulty with this principle in actual practice was that long-term corporate stock

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<sup>1</sup>Read at the National Conference on War Economy, June 6, 1918.

was issued for improvements which, in many instances, were of very brief duration. It has been conventional for writers upon this subject to accuse Tammany administrations of having bought perishable supplies with the proceeds of fifty-year corporate stock. The accusation has been made in such form as to imply that the practice in question was peculiar to Tammany administrations. Such, however, is not the case. Those who have proceeded in this manner are found in every administration, of whatever party or combination of parties it may consist. Under fusion or reform administrations, material of the most perishable and unenduring character has been acquired with the proceeds of fifty-year corporate stock. As late as the 17th of April, 1914, by unanimous vote of the fusion Board of Estimate and Apportionment, fifty-year corporate stock was appropriated, the proceeds to be used for the removal of piles and foundations of the "Old Iron Pier" and for the removal of other piers and jetties from the beach fronting Seaside Park at Coney Island. This offense against the principles of sound finance was not actually confined to the use of fifty-year corporate stock for this purpose, but the appropriation was so diverted that it was substantially exhausted, leaving the principal work unfinished. The consequence was that the present Board of Estimate and Apportionment four years later had to make an additional appropriation to do the work in question, the cost of which was met from a budgetary item.

Under the Low administration, horses, horse collars, cans and can carriers and like paraphernalia for the use of the street cleaning department, was purchased with the proceeds of long term corporate stock running mostly for forty years. This was for a ten years longer maturity than had been authorized by any prior administration. This practice was wholly discontinued in the second McClellan administration. For many years it was the practice in the dock department to meet the ordinary expenses of administration, maintenance and operation by the proceeds of long-term corporate stock. This practice also was discontinued in the second McClellan administration and a charter amendment was procured making it unlawful. During the Low administration a large amount of long-term corporate stock, running mostly for forty years, was authorized for the purpose of repaving the streets of the city. It is needless to say that the average duration of any pavement is substantially less than forty years. At the

present time about \$58,000,000 of corporate stock of the City of New York issued for repaving is outstanding, practically all of which runs for forty or fifty years. In the Gaynor administration this practice was abandoned, and since that time corporate stock for repaving has not been issued for a greater period than ten years.

The extent of such practices and the constant criticism thereof, usually aimed at Tammany administrations as though they were the sole offenders, when in fact they have established reforms, must have materially affected the credit of the City of New York. When, therefore, the enormous issues of corporate stock necessitated for the Catskill water supply and the dual subway system were pressed upon the market from year to year, it was inevitable that a large portion of such sales should be undigested and the price materially affected. This has been reflected in the advancing interest rate prior to the outbreak of the present war in 1914, and also in a constantly lower level of prices for New York city corporate stock. These were some of the elements of the situation that existed when the so-called "Pay-as-you-go" policy was adopted in September 1914.

In its full scope and operation that policy prohibited the use of corporate stock for any period whatever for any of the various classes of public improvements that were not of a revenue-producing character. The pay-as-you-go policy implied that all such public improvements of whatever duration and for whatever purpose, if non-revenue-producing, were to be paid for by the taxes raised in the year in which the improvement was made.

The policy was put into effect by stages. In the first stage it was provided that such improvements authorized thereafter in 1914 and in 1915 should be financed one-quarter from the tax levy and three-quarters from fifteen-year serial bonds. Those authorized in 1916 were to be paid one-half from tax levy and one-half from serial bonds. Those authorized in 1917 were to be paid three-quarters from tax levy and one-quarter from fifteen-year serial bonds. Finally, all such improvements authorized after January 1, 1918, were to be paid out of the taxes of the year in which they were made.

Such was the situation that confronted the present administration in New York city on January 1, 1918. It was found in practice that the pay-as-you-go principle, as thus applied, had a

marked tendency to increase the tax rate in order to meet the cost of necessary public improvements of a non-revenue-producing character. The city was confronted with an unfinished subway system, which, if the work had progressed according to the original program, with negligible exceptions, would have been completed and in operation. A vast amount of work and expense was required to complete the dual subway system. The carrying charges for interest and amortization upon the outlays required, and the deficits which the city is compelled to meet, were making a constantly increasing drain upon the city's resources and a material addition to its tax rate. In order for the city to have sufficient borrowing capacity to embark upon the dual subway enterprise, and to keep the tax rate within constitutional limits, there was resort to the device of increasing the assessed valuations of real estate all over the City of New York. This increase was carried to an extent that has evoked the criticism that in many instances the assessed valuation is greatly in excess of the actual value. The president of the department of taxes and assessments under the preceding administration officially stated to the state tax commissioners, representing the State Board of Equalization at Albany, that the assessments in the Borough of Manhattan in 1916 averaged 106% of the sales value of property sold, against which the assessments could be checked. Until such time as the population of the undeveloped portions of Brooklyn, Queens and Bronx boroughs had increased to a point where there was sufficient traffic to support the newly constructed dual subway lines, there was a constantly increasing peril that the assessed valuations in those boroughs would suffer a decrease from the lack of such operation and settlement.

To diminish the deficits that the city has to meet under the dual subway operation, it is necessary that the population of these three boroughs in particular be speedily increased so as to provide revenues for the new subway lines. Any increase in the tax rate in those boroughs was a distinct check upon private improvements and increase in population; and operated to defeat the objective that the city must attain to carry the dual subway system. The tax rate in Queens for 1918 was \$2.56, except for a special act of the legislature which became a law the day before the rate was fixed and permitted a part of the tax to be deferred to a later year, so that the actual rate for 1918 is \$2.41.

The mounting rate of taxation due to the operation of the pay-as-you-go policy manifested two serious consequences. First, it repelled improvements. No sensible business man would locate a manufacturing plant or other industry subject to such a rate, especially when by a slight shift in location he could either be entirely outside the City of New York or in an adjoining state. Second, the mounting tax burden superinduced an increased number of mortgage foreclosure and tax lien sales. Property owners were unable to bear the additional strain, particularly under war conditions. As the number of such forced sales increased, market valuations inevitably declined. Indeed, as a matter of strict legal right, other property owners would be entitled to have their assessments reduced to the level of market values thus made. Thus the city might easily be forced to exceed its debt limit, without any increase in its indebtedness, because of the reduction in assessed values of real estate. Moreover, large appropriations had been made, particularly for educational purposes, which the pay-as-you-go law made practically unavailable. This was due to the circumstance that the purposes for which such appropriations were originally made had been modified by the educational authorities. But the appropriations could not be modified, because if the old appropriations were rescinded, a new appropriation could not be made after January 1, 1918, except upon the pay-as-you-go basis, or to be met 100% out of current taxes. About \$12,000,000 of appropriations previously made for the department of education were thus affected and rendered practically unavailable. This condition, if continued, would greatly aggravate congestion in public schools and the part-time evil. Moreover, we must reckon with the ever increasing burdens of the present war and the direct state tax.

By way of analogy it may be said that if the federal government met all of the expenses of the present war by taxation without resorting to the sale of liberty bonds, we should have the pay-as-you-go policy as applied to the war; and every person who now holds a liberty bond would instead be the possessor of a tax receipt.

Under such circumstances, the present controller of the City of New York prepared and had introduced into the legislature a bill to repeal the pay-as-you-go act passed in 1916, and to substitute therefor what he considers the correct pay-as-you-go prin-

ciple. This principle is that the pay-as-you-go policy is applicable alike to revenue-producing as well as non-revenue-producing improvements; and that the cost of all such improvements of an enduring character should be met by corporate stock or serial bonds, the maturity of which can in no event exceed the normal life of the improvement paid for thereby. The cost of such improvements is contributed by each year's taxpayers who enjoy the benefits thereof and whose taxes provide for the interest for such year, and, if a serial bond, for the instalment thereof due that year, and, if a sinking-fund bond, for the proper contribution to pay it at maturity.

No reasonable distinction can be made between revenue-producing and non-revenue-producing improvements in the application of this principle. The bill in question was drawn after extended conferences with those familiar with the subject, many of whom had been interested in the adoption of the prior policy. In order to avoid the excesses from vicious financing of earlier days, the bill expressed the duration for which corporate stock for various purposes should be issued. For example, for the acquisition of real estate, water supply, rapid transit and like improvements, it was very generally conceded that fifty years was proper maturity. Unquestionably real estate (unless for a seaside park), would endure for fifty years and ordinarily its value would be as great then as now. In England they are issuing obligations running for seventy-five years for the acquisition of real estate for public purposes. The reference to the kind of real estate that might be part of a seaside park is in relation to a large seaside park near Neponsit, since the acquisition of which, forty-seven acres have been carried away by the tide, hardly a very enduring piece of real estate. Part of it is now over on the Jersey coast.

Corporate stock for fireproof buildings and similar improvements was limited in its duration to forty years. Other periods were specified for improvements of a less enduring character. The resolution of appropriation is required to express the duration of the improvement and fix the maturity of the corporate stock authorized. As an illustration of that I might say that officials who have acquired the habit from former administrations have recommended that long-term corporate stock be issued to pay for window shades in one of the hospitals that is being equipped.

We make them pay for these out of their budget appropriation for 1918. This is merely an illustration of how deeply ingrained is the disposition to use long-term bonds for the most ephemeral improvements. These were the reasons for the pay-as-you-go policy, and I think we have now discovered the correct application of it.

This bill as originally prepared was in the form of an amendment to the Greater New York charter to correct the changes made by the pay-as-you-go act of 1916. In the course of discussion in the legislature, it appeared that it would be more expedient to leave the charter provisions for the present as they stand and to change the form of the bill in question to an emergency act. Accordingly, the bill was slightly changed by providing a new title describing it as "An Act for the Relief of the City of New York in Financing its Obligations During the Period of the War, and One Year Thereafter, in Reference to the Issuance of Corporate Stock and Serial Bonds." It then provided that \$15,000,000 of such securities may be issued in any single year in addition to any that may be authorized under existing laws. The existing laws provide for the issuance of corporate stock for revenue-producing purposes and for special purposes, including rapid transit and water supply, such as the new court house and site, Bronx Parkway and change of grade crossings.

I commend to you that you make an assault upon the state legislature of New York at its next session to repeal those special acts which permit bodies that are not accountable to taxpayers to appropriate long-term corporate stock for such purposes as the Bronx Parkway, practically without limit. Of course we have the court-house site, for which no more money can be spent, because it is not there to spend, but that property could be made available for other public purposes if the court-house act were repealed. As the matter now stands that property is practically condemned to idleness until such time as the city may see fit and may have the funds to build a new court-house, or may abandon the enterprise entirely. That is a matter absolutely in the hands of the legislature. We got a bill through the senate this year to make that change so as to render the property available for war purposes, but the assembly smothered it for political reasons.

The practical effect of the \$15,000,000 provision is to permit authorizations to that extent for non-revenue-producing purposes,



such as school houses, hospitals, correctional institutions, fire and police protection. The limitation of \$15,000,000 was agreed upon as the minimum requirement of the City of New York after an exhaustive inquiry into the subject.

The policy of the present Board of Estimate and Apportionment is not to authorize a public improvement of any kind that is not distinctly of a war character. There is no chance whatever for any appropriations being made for the acquisition of new parks or the improvement and erection of buildings of any kind that do not distinctly and directly contribute to the successful, diligent and speedy prosecution of the war.

This bill passed both branches of the legislature without opposition except of a political character. This opposition was continued before the governor to the very last moment of the thirty-day period. It was of a purely political character, doubtless intended to cripple and embarrass the present city administration in dealing with war conditions and caring adequately for educational, hospital, fire and police necessities. Although Governor Whitman was of the same political faith as the most insistent opponents of the measure, he took the broader point of view, being convinced that the relief provided by the bill was imperatively required. This was the last bill that the Governor signed before the expiration of the thirty-day period. It became a law by his signature and is known as chapter 658 of the laws of 1918.

## FINANCING LOCAL GOVERNMENTS<sup>1</sup>

MORTIMER L. SCHIFF

Kuhn, Loeb and Company

**A**CCORDING to the most recent reports, we are now spending at the rate of \$40,000,000 per day in round figures, of which about one-fourth is said to be for loans to our Allies. This is approximately \$15,000,000,000 per year, and it is stated that our future requirements will be considerably larger than this. We are raising now about \$4,000,000,000 by taxation, which is almost 27% of our present total expenditures and over 35% of those for our own account, a percentage of expenditures provided by taxation considerably in excess of what any other of the belligerents, including England, secures from that source. It is now proposed that even a larger percentage of our requirements should be raised from taxation and a figure as high as \$8,000,000,000 has been mentioned in this connection. This is not the time or place to discuss the advisability or feasibility of such a program, but one thing is clear, that the amounts to be raised—both from taxation and by loans—are simply stupendous and that it will require the closest economy—public, corporate and individual—to make them available. Figures like these are impossible to visualize, and of course no such amount of money exists. But, as has frequently been said, it is not money—that is, gold and silver—which must be forthcoming, but what money represents—namely, labor and goods. We have pledged to the prosecution of the war all our resources in men and in money, but these are not in a form to be readily available. Both require mobilization, and just as the selection of men for military service must be made carefully to cause the minimum of disturbance to the industry of the country, care must be taken in securing the necessary financial support so as to make it readily forthcoming with the least possible interference with the country's ability to finance its business and industrial requirements. Just as there is a limit to the number of men who can be taken from productive

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<sup>1</sup>Read at the National Conference on War Economy, June 6, 1918.

industry without affecting the development of the country, so is there a limit to the credit we can provide without curtailing our normal needs. It may well be that we shall have to exceed both these limits and, if necessary, we must not hesitate to do so. Business cannot go on as usual during war time and the sooner we realize this, the sooner shall we make our resources available in their full measure for our war requirements. Thrift and economy, both corporate and individual, must be the rule. Even our national purse is not bottomless, and we must do without many things, so that there may be no interference with the needs of the government. It cannot be emphasized too strongly or repeated too often, that unnecessary expenditures must be avoided, so as to release money—and let me repeat again, that is labor and goods—for war purposes. The primary business of this country at the present time is to win the war, and that as promptly as possible. It will not be over until it is won and every day by which it is shortened means not only a saving of millions of dollars, but what is far more important—of the lives and health of our greatest asset, the young manhood of the country. No sacrifice is too great to accomplish this, and the least those of us who unfortunately must stay at home can do is so to manage our own affairs and shape those of the enterprises under our direction, as to make available the facilities which the country needs for its war program. This requires the wholehearted and unselfish co-operation of capital and labor, of government and business, and can be attained only if all work together with singleness of purpose and unity of endeavor.

Industry, for that is after all the wealth of the country, must be mobilized on the basis of concentrating on essentials and eliminating non-essentials. This can be done by voluntary action on the part of producers or of consumers, by curtailment of credit and by control of raw materials. Voluntary action can accomplish much, but it is apt to be unscientific and to a great extent haphazard in character. Curtailment of banking credit is difficult to enforce and a rather dangerous expedient. It is almost certain to work unfairly, as no general rule for its application can be laid down, and different localities and even different banks in the same locality are sure to have different opinions as to what are essential and what non-essential requirements. Banks can do much to discourage unnecessary expenditures by their customers who seek

credit, but it needs some authoritative body to apply effectively the check which the situation demands. That, it seems to me, can best be done by rigid control of raw materials. It avails little to preach economy if extravagance is encouraged by luxuries being readily procurable. There is little use, for instance, in urging a municipality not to enlarge and develop its park systems at the present time if contractors are ready—yes, even anxious—to undertake the work and are permitted to secure the labor and materials to do so. All the resources of the nation must be husbanded with the greatest care to enable the country to bear its full part in the prosecution of the war, and there should be no unnecessary bidding by one enterprise against another and surely not by different departments or agencies of the government.

There is, however, a curtailment of credit which is effective and which can be applied with reasonable fairness. Of course, there may be some hardship in particular instances, but that can scarcely be avoided in times like the present, and war demands the subordination, if need be, of the individual to the common good. The curtailment of credit to which I refer is that by government control of capital issues. We have now an official body charged with this duty and upon its wise handling of the applications which come before it will depend to a great degree the extent to which expenditures for non-essential purposes can be checked. While the Capital Issues Committee has no power to enforce its mandates and while notwithstanding its disapproval securities may be legally issued, in effect its decisions will be controlling, as its approval will be necessary to make an issue salable. The committee can view the country as a whole and determine whether or not it is advisable that a certain expenditure should be made and whether even though important for its particular locality, other requirements of greater national interest should not have the first call upon the investment market.

I speak of the investment market, but it appears to me extremely doubtful whether as the war goes on there will be a market to any extent for any new issues except government bonds, or, if so, whether the offering of other securities should be permitted. In order to make available the enormous sums which our participation in the war requires, the government must monopolize, if necessary, the investment market; and even state and municipal bonds, attractive as they may be to the investor on account of their exemption from taxation, must give way to the federal necessi-

ties. It may be said that other borrowers can succeed in tempting money out of the pockets of the people by the attractiveness of the terms they may offer, but even if this is possible, it should not be permitted in the interest of the country at large. The needs of the nation must be paramount. As a matter of fact, with government loans for large amounts absorbing the savings of the people, with provision having to be made for large tax payments, to say nothing of the absorption of funds by the Red Cross, Y. M. C. A. and other war activities, which must and should be supported, the financial exhaustion is apt to be such as to prevent the successful placing of larger amounts of other than government securities. It follows, therefore, that in order to avoid the competition of other securities more attractive to investors and to meet the needs of those unable to finance themselves, even if they were permitted to do so, the national treasury must provide either directly or indirectly the funds for the requirements of industry and of states and municipalities for refunding and such absolutely necessary additions, betterments and improvements as are imperatively needed in the national interest and cannot be postponed. For this we have the War Finance Corporation with its resources of \$3,500,000,000, and the revolving fund of \$500,000,000 provided in the Railway Act. Great care must be taken how these facilities are utilized, and their use must be restricted to what is absolutely essential for the prosecution of the war and for the maintenance of the credit of solvent public and private enterprises.

We are at war, and everything must be considered with that basic fact in mind. We are in it for no selfish purposes, for no material gains, and fighting as we are for high ideals, we must take particular care that no selfish interest at home be permitted to interfere with what our armies need abroad. As Mr. Bonar Law, the British chancellor of the exchequer, has well said: "The war has become largely a question of nerves, endurance and staying power." These are grave words and are to us, too, of deep significance. They point our duty clearly. We must harden our nerves, we must fortify our endurance and, to a great extent, it is this country which must finally provide the staying power. That means men and money without stint. We must make every sacrifice of our own comfort, of our own desires, to accomplish this and thus prove to the world that this is a united country, that democracy is efficient, effective and responsive and that the pledge of all our resources has not been empty words.

## THE HISTORY OF THE PAY-AS-YOU-GO POLICY<sup>1</sup>

ARTHUR M. ANDERSON, J. P. Morgan & Company: The remarks which Controller Craig has made about the "Pay-as-you-go" policy in New York city take me back very vividly to the conditions prevailing at the time the "Pay-as-you-go" policy was instituted. In October 1914, three months after the outbreak of the European War, the financial world was, so to speak, standing on its head. The City of New York, in accordance with its practice for a series of years, had borrowed quite extensively on short-term paper. A part of this borrowing, in fact about \$80,000,000 of it, was represented by obligations payable in London and in Paris. Under normal circumstances these maturities would have been met by purchases of exchange, but, due to the extreme confusion in international finance, exchange was almost unobtainable, and what little dealings took place were far above the normal par of exchange. The quotations, however, really meant nothing, because exchange was not available in an amount sufficient to cover the city's obligations.

The controller set forth the situation in great detail to some of his banking friends and a syndicate was organized to purchase \$100,000,000 of New York city bonds running for one, two and three years, bearing 6 per cent interest. Participation in the syndicate was pro-rated over the banking institutions at a fixed ratio of about 4 per cent of the net deposits of each institution, and you will be interested to know that of the 128 commercial banking institutions in Greater New York all but four were so much interested in the credit of the city and so willing to protect it in times of stress that they agreed to purchase their pro-rata share of bonds and make a payment therefor to the extent of about 80 per cent, if called upon, in gold, the gold to be shipped to Ottawa for the credit of the Bank of England to create deposits in London upon which the city could rely in meeting its indebtedness abroad. The value to the city of this agreement of the banks to pay in gold if required was measured by the premium on the pound sterling which at the time of this agreement was in the neighborhood of 4 per cent, so that the possible 2 per cent profit to the syndicate on the exchange operation (beyond which point all profit was to accrue to the city), was about one-half what any one of the institutions could have made by shipping its own gold to Ottawa and selling bills on London against deposits so created.

One reason for the demoralization in the exchange market at this time was the general knowledge that New York city was obligated for very large amounts abroad, and the psychological effect of the formation of a syndicate to supply gold if necessary to meet the city's debt in London was immediate. Of the \$80,000,000 which the banks agreed to furnish in gold, if required, there was called from them about \$35,000,000. The

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<sup>1</sup>Discussion at the National Conference on War Economy, June 6, 1918.

balance was furnished either in foreign exchange which the banks had the right to supply, in lieu of gold, or, when the exchange market had again resumed a semi-normal basis of operation, by clearing-house funds. The City of New York received back from the operations of the syndicate over half a million dollars, and the distribution of notes to investors was an overwhelming success. In short, a very dangerous situation was met by courageous and immediate action on the part both of the city and of the bankers of New York city.

At the time the negotiations between the controller and the bankers were undertaken, the market had indicated that the bonds of the city were not so eagerly sought as had been the case in earlier years. While all municipal bonds had declined in selling price as measured by their annual yield during the ten years from 1904 to 1914, the decline in prices for New York city bonds was considerably more pronounced than in the average price of the bonds of about twenty cities whose obligations are used by statisticians in charting market movements.

The greater extent of the decline in New York city bonds was not due to any question as to the safety of New York city's obligations, but the city had put out more bonds than the market wanted to absorb; in other words, it had reached more or less of a point of saturation. From 1904 to 1914 inclusive the city marketed publicly a total of \$681,800,000 bonds, which represented a ratio varying from 10 per cent to over 20 per cent of all the municipal financing in the country during that period. This seemed too large a share for any one municipality to absorb without some effect on quotations and the market prices reflected this fact. It is true that the city's expenditures were in large measure along constructive lines—the building of the great subway system, the enlargement of the water supply facilities and the construction of docks—but the purposes for which the bonds were being put out had nothing to do with the effect on the market price. The city's debt was suffering from growing pains.

In addition to the great amount of bonds issued for purposes such as water supply, rapid transit and docks, there was a large volume of debt created for other purposes, the thousand and one things that go into the plant of a great municipality like New York—schools, parks, museums, streets, fire houses, police stations and the like, the total of which in the years 1904-1914 inclusive, was no less than \$386,000,000. This sum of \$386,000,000 borrowed for non-revenue-producing purposes is an enormous sum of money and it seems particularly so in comparison with what has been spent elsewhere. The city of London appears to me to be possibly the best city to use for purposes of comparison, although, naturally, the different practices on the two sides of the Atlantic make any such comparison difficult as to specific points. The London County Council corresponds somewhat to the Greater City of New York in general administrative powers and the area does not vary greatly in population. Since 1856—over sixty years—the total amounts of money raised and applied by the London County Council have been about \$545,000,000 and, of this amount, about \$115,000,000 has been repaid, leaving an existing gross debt of say \$430,000,000, of which the sinking fund and other accounts applicable to

the redemption of debt hold about \$175,000,000, leaving a little over \$250,000,000 in debt outstanding as of March 31, 1916. This is debt outstanding for all purposes, revenue-producing and non-revenue-producing, and represents an existing debt of a little over \$50 per capita. It compares with over \$1,000,000,000 of New York city outstanding debt in the hands of the public, equivalent to over \$175 per capita. One might expect that with this relatively low debt the tax rate of London would be proportionately higher than that of New York city, but while the basis of assessing taxes in London is at variance with that followed in this country, the tax rate in London in the year 1916-1917 figures out about 1.6 per cent of the estimated capital value of the real estate and not much over 1% of the estimated value of all property in London, including personal property. This is considerably below the present tax rate of New York city, which is over 2%, and also considerably below what the rate has been in any one of the last few years. I understand that in London the only increase in taxes in the last ten years has been due to expenditures for educational purposes.

Moreover, in the London budget of 1917 the interest charges were estimated at approximately one-eighth of the city's total expenditures and an amount slightly larger than one-eighth was devoted to redemption, making a total of a little over one-quarter of the budget devoted to the service of the debt. In New York city the total debt service in 1917 was approximately 29% of the city's revenue, but it was divided between 21% for interest and only 8% for retirement of principal.

It is true that London has not gone so far as New York in municipal undertakings. Only about one-fifth as much debt has been issued for revenue-producing undertakings as for welfare, education, health, streets and such purposes. The city owns tramways, but not the subways nor the water supply, and it has adopted a housing scheme. In some of the other English cities, however, much the greater part of the issuance of debt has been for purposes which are self-supporting. In Manchester and Sheffield about 66% of the debt outstanding represents revenue-producing undertakings; in Liverpool, nearly 70%; in Bristol, about 80%.

With regard to the \$386,000,000 which New York city borrowed from 1904 to 1914 inclusive, however, a large part of the amount was expended for purposes directly connected with the public welfare, health and education, and no one would contemplate any reductions in expenditures for such purposes. But there were large expenditures of other characters during this period, and while I have not the figures showing the detail of this \$386,000,000 between 1904 and 1914, the reports of the controller indicate that during the years 1908-1917, inclusive, bonds were issued for what might be termed luxuries, as follows:

Libraries and sites.....	\$6,200,000
City parks and places.....	13,400,000
Public buildings, except schools and libraries..	21,500,000
New Municipal Building.....	17,100,000
New County Court House.....	11,400,000

Expenditures of this sort, while desirable in themselves, had no small part



in increasing the city's debt to the figure which was the subject of discussion in 1914.

The officers of the city, despite the fact that for some time they had discontinued the practice of paying for non-permanent improvements out of the proceeds of long-term bonds, and since 1911 had limited the life of bonds for repaving to a maximum of ten years, coinciding with the anticipated life of the pavement, felt with the bankers that further curtailment was necessary. There was substantial agreement that the purposes of such expenditures were very desirable in themselves, but the fact that they were not of a self-supporting nature made it appear wise to make them charges against current revenue, or to eliminate for the time being such of them as could be postponed. The city administration, after some two weeks of discussion, proposed an acceptable plan. This plan, subsequently enacted into law, provided that for a period of three years an increasing proportion of the cost of non-revenue-producing improvements should be paid from current revenue, until at the expiration of that period the total should be paid from current revenue. The mechanism for financing the share of the cost to be charged to current revenue was a one-year note, to be provided for in the city tax budget of the following year. The balance of the cost of such improvements was to be financed by a fifteen-year serial bond to be taken up as it matured in equal annual installments, also through the budget. This policy was adopted on two theories: first, that a city—like an individual—should not buy luxuries except such as it was able to pay for out of its current income, viz., its tax collections; and second, that if the city continued to put out long-term bonds for purposes that might be dispensed with, the legal debt-incurring power, already very much reduced through large issues since consolidation, might disappear and—so to speak—hamstring the city financially.

The policy of the city administration in adopting this course was one of the bravest things politically that has ever been done in New York city. The mayor and the controller both knew that the course which was being adopted would mean one of two things, or possibly both of them. First, a reduction in the supply of the things which the people of any city like to have: fine public buildings, good streets, and public facilities of the highest grade. Second, as the non-revenue-producing expenditures could not be eliminated entirely, there would be an increase in the tax rate, but the mayor and the controller and the members of the Board of Estimate were clearly of the opinion that such a change was wise in order to correct what had possibly been a too rapid rate of expansion in the city's expenditures, and the proposed plan was adopted.

There are, naturally, at least two views on any such question, but my feeling is that the results to the city of the "Pay-as-you-go" policy up to the time of our entrance into the war were distinctly beneficial. The report of the chief accountant of the finance department, one of the few men living who understands the city's accounts and the only one able to fathom the city's Sinking Fund and General Fund practice, stated that because of the adoption of this plan the city's outstanding debt remaining out of that created since 1914 is \$10,000,000 less than it would have been

under the old fifty-year Sinking Fund plan, while the interest payments during the three years, 1916, 1917 and 1918 are over \$500,000 less than they would have been under the former method of finance and, up to the present year, the increase in the tax rate was only nominal.

With our entrance into the war, however, conditions changed materially. All calculations were upset. Lord Kitchener's statement that the war would last three years was decried, and a policy which was adopted two months after the beginning of the European conflict could not necessarily stand under the changed conditions existing after over three years of destruction of property and increase in costs of almost everything that goes into the city's accounts.

New York city is a very large business corporation, with an income and expenditure of over \$200,000,000, about one-fifth of the federal government pre-war budget. Quite a little of this money goes into the purchase of materials and supplies, and with an increase in Dun's index price of about 100% since the beginning of the European War, the city had the choice of stopping practically all expenditures, of deferring payment for some of them, or of raising the tax rate to a degree that would have been alarming. There were objections to all three courses, but such an increase in the city's budget as would cause a reduction in the values of real estate through a too sudden increase in the tax rate, involved the immediate risk of eliminating the city's margin for new borrowing for construction purposes and creating a situation which the "Pay-as-you-go" policy had been intended to prevent. Rather than risk the development of an unhealthy situation in real estate conditions, Controller Craig suggested that at least for the period of the war the provision requiring the city to pay its non-revenue-producing expenditures out of current income should be modified in favor of a policy which would permit the city to fund such expenditures over a period not longer than the life of the improvements created.

This policy, while less conservative than the "Pay-as-you-go" policy adopted in 1914, is a great improvement on the plan which had been followed for years. The legislation which has been passed permitting this change will permit the city for the period of the war and one year afterward to issue corporate stock and serial bonds up to \$15,000,000 annually for non-revenue-producing improvements, provided they mature and are redeemed within the estimated life of the improvement as certified in the resolution authorizing it. Its estimated useful life varies from fifty years for property believed to be permanent, such as water supply, rapid transit or sewers, down to fifteen years for expenditures for machinery and ten years for purposes not otherwise specified. This plan of procedure follows the most advanced legislation on municipal financing in Massachusetts and New Jersey and, accepting the theory that all improvements are to be paid for by bonds, it represents almost an ideal policy.

The present plan is infinitely more scientific and conservative than the old method of financing New York city's improvements, and is also more scientific, though less conservative, than the "Pay-as-you-go" policy adopted in 1914. It is something like the difference between the national policies

adopted by the belligerents in this war. England has been paying all of the interest on her debt and about 12% of her share of the actual cost of the war out of taxation. Germany, until recently at least, was not paying out of her income from taxation any of the cost of the war, nor even interest on her huge war debt, trusting to collect these enormous sums from the indemnities paid by her defeated enemies, which expectation will never be realized so long as we have men who can bear arms and fight. The United States, however, it is estimated, will pay out of taxation somewhat over 40% of the actual cash expenditures for the first year of war, exclusive of the loans to our Allies, and President Wilson has intimated that he hoped to pay 40% of the cost of the war in this manner.

Because we want to see New York conservative—not merely scientific, I hope that when conditions shall have returned to normal, it will again go beyond the bare amortization of non-revenue-producing improvements within their life, and either pay out of its income from taxation a substantial portion of these expenditures which do not bring in revenue, or else go without—at least until the city valuations of property give it a respectable debt margin, not a mere 1% or 2% of its outstanding debt.

### THE NEED FOR A MUNICIPAL PROGRAM<sup>1</sup>

HOWARD LEE MCBAIN, Professor of Municipal Science and Administration, Columbia University: It is needless to dwell upon the manifest disadvantages of a federal system of government in a time of unusual national stress. In the conduct of war there is no need that is more compelling than the need for centralization of authority. Especially is this true under the conditions of modern warfare, which affect the normal courses of labor, of industry, and of finance to a degree hitherto unprecedented in times of war. We have reached perchance only the early stage of what may prove to be an enormous dislocation and temporary redirection of these normal courses.

Whether our present stage along this route be early or late, we have thus far traveled happily if, indeed, this word may be used at all in such connection. We have witnessed the exercise of undreamed-of powers by Congress; and, with the exception of the silly contest over the draft act, we have been spared those judicial battles over questions of constitutionality with which we in this country are so familiar. We have witnessed on the part of state and local governments a degree of co-operation with the national government that has, with few exceptions, been little short of marvelous. As the days of our great task unroll, the necessity for this co-operation will increase. It will increase, moreover, as the strain of the war itself becomes heavier and more personal among us, with the inevitable concomitant of some discontent and perhaps some additional need for coercion. In spite of this fact, in spite also of the large measure of legal autonomy which our states enjoy, and in spite of the fact that in a number of states our cities in turn enjoy a large measure of legal independence

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<sup>1</sup>Discussion at the National Conference on War Economy, June 6, 1918.

from control by their state governments, I think we have reason to believe that hearty co-operation will be generally and generously given.

What our cities need—and I direct myself especially to these important spending units of our government—is not coercion but a program. And this program should be supplied and supervised by the national government.

Already, of course, the Capital Issues Committee is supplying this program in part. In respect to the activities of this committee I can naturally add little to what Mr. Warburg has so interestingly and lucidly described. I venture merely to express the hope that the Capital Issues Committee will, as I believe it should, develop far beyond its restrictive activities into a constructive and directional agency of great significance and value.

I believe that it would also be wise for the national government to set up co-operative supervision over municipal tax budgets. It is true that in the matter of budgets many cities of this country have nothing to learn from Congress and much that they might profitably teach. It is true also that no city in this country raises revenue by income taxes, now the principal source of national revenue; and that the national government does not use the general property tax, the principal source of municipal revenue. It is equally true, however, that, with national taxes mounting ever higher for the achievement of our now supreme purpose of victory by the sword, municipal taxes should be kept at the lowest possible point. The scrutinizing of innumerable municipal budgets would be an onerous task at best, but it would not be so onerous as many might suppose. A large part of our municipal expenditures are in practical effect, if not in law, in the nature of fixed charges. Only those items involving proposed extensions of service or wholly new services would need to be passed upon. And here again there would be the opportunity for constructive suggestion in the matter of activities peculiarly related to war problems that ought to be organized upon something approximating a national basis.

Finally, and perhaps most important of all, the cities of the country ought to be utilized to the utmost in the task of demobilizing the army and restoring the industries of the country to a peace footing. The magnitude of this task no man can now assess. It would be no mean undertaking even if it were begun tomorrow; it may be colossal beyond imagination ere it is begun. It is in many ways far easier for a people to shift from a peace to a war footing than it is to reverse the action. In the one case there is the practical stimulus of government contracts, of government service, of government control; and there is spiritual stimulus of patriotism called to its highest opportunity for concrete expression. In the other, reliance must be placed largely upon individual enterprise acting under more or less normal economic laws. The government can dislocate industry for war purposes by direct action; the government can relocate industry for peace purposes only by indirection.

Now the cities of this country can be used as an important agency in solving the problems of the immediate after-war period. They may and ought to be mobilized to take their part in the work of demobilization and of industrial readjustment. Every city should be called upon at

this time to formulate a considerable program of public work construction for the period following that longed-for but unknown day when peace with victory shall have crowned our high endeavor. Into this work at least a part of our returning troops and of our dislocated laborers can be absorbed pending the reconstruction and normalization of our disturbed industrial life.

This calls for a program prepared well in advance of the eventuality. Public works cannot be intelligently planned and projected overnight. And the promotion of such a program, as well as its general guidance, should come from the national government.

This will also call for large issues of municipal securities and for high municipal taxes in the post-war period. Even so. The national debt will not be paid by the signing of a treaty of peace; and the national obligation toward those who have been summoned to the military and civil establishments will not be fulfilled by return-trip tickets and honorable discharges; nor will its obligation to those who have gone into the specialized industries of war, whether from patriotic motive or because of the lure of higher wages, be fulfilled by leaving labor at loose ends while private initiative works its economic pleasure in transforming war shops into peace shops.

The cities of this country, despite their autonomous powers and despite the autonomous powers of their states, are integral parts of the nation. In the matter of public works they are, in aggregate, our most important spending units. Their service in this connection should not be lost by neglect. They should be led into co-operation to this important end. There should be some adequate apportionment of what is expected of them. National subsidies in minor part payment for such enterprises might be well worthy of consideration. But in any case, better high municipal debts and taxes than widespread unemployment and distress; better the utilization of these appropriate units of our government than the preservation of our cherished ideals of the federal system and of home rule; and better anything than the unliquidation of a national obligation that grows larger with every dawning day of continued war.

## THE GOVERNMENT AS EMPLOYER<sup>1</sup>

ALBERT SHAW, Vice-President of the Academy of Political Science, presiding: Carrying on a modern war means nothing short of the assumption by government of something like full control over the entire labor energy of the country. The principles involved are simple enough, but their application is difficult. Where a country is highly militarized in advance of a war, it is to a limited extent true that the undertaking is supported by past effort. In the main, however, war must be sustained out of current effort—that of workers in fields, shops, mines and transportation, as well as that of men in the direct fighting services. Success in a great modern war is imperilled if it is not clearly understood that there must be unity of war effort on the part of the entire population, with government guiding and regulating at all essential points. The withdrawal of millions of men from ordinary pursuits not only leaves a shortage of labor by reason of their going to the camps, but it also creates a stupendous demand for labor in new fields. The equipment and munitioning of armies, the building of ships and support of navies—the merest suggestion is enough to remind every intelligent person of the vastness of the transition that war brings about in the labor conditions of a nation.

Our participation in a war that compels us to co-operate with several European powers does not restrict or lessen the magnitude of the burden thrown upon American labor, but on the contrary increases it very greatly. The government's interest in food production, and therefore in farm labor, is largely due to the need of sustaining millions of people in Europe as well as providing for our own army and navy and our civilian workers. The government's control over the mining and distribution of coal in like manner is the more sweeping and necessary because of shipping needs and other industries vital to our Allies as well as to our own war activities. Even where the government does not assume direct employment—which it does assume in the case of the railroad system—or where it does not create new employment and indirectly control it (as it does in the case of ship-building) it uses indirect means, such as its assumption of control over all steel production, to divert labor from one form of industry to another. Thus government stops the construction of steel buildings in cities, and reduces the automobile industry to a minimum, in order that the materials themselves and also the workers may be at the service of industries more vital to the business of prosecuting the war.

The magnitude of war expenditures almost invariably increases the prices of commodities; and government's commandeering of the output of mines, mills, factories and shipyards leads to price-fixing, always on liberal

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<sup>1</sup> Addresses at the luncheon session of the National Conference on War Economy, June 6, 1918.

terms. The cost of living meanwhile increases rapidly, and it becomes necessary to readjust money wages. The immense shifts from one form of employment to another, under war conditions, can best be brought about through the stimulus of very high wages. Nobody resists the government's use of the taxing power and the borrowing power; and a strong government like ours, commanding the resources of a rich country, can find the funds more rapidly than it can secure the materials and the labor that it needs. Speedy results are essential above all else, and these are best secured by according high wages to labor and paying correspondingly high prices for the commodities that labor produces.

Government in war-time, then, becomes a liberal employer, high wages meaning more or meaning less to the laborer in accordance with the ability or policy of the government's financiering, as respects inflation of prices. Previously unutilized elements, such as the labor of women, are brought into service through the attraction of high wages and the stimulus of example. Luxurious spending is discouraged. The ordinary family has additional wage-earners, to take the place of those who have gone to the war. Thus with concentration upon the most vital things, and practice of the principles of thrift which government policy can find ways to promote, the labor shortage due to the enlistment of young men in the fighting services is met to a large extent.

Government policy as respects labor in war-time is certain to have social consequences of a permanent kind, and these may be quite as important in the long run as the international adjustments brought about by the use of armed force. Heroic times call for swift decisions, and it is found possible to give immediate effect to measures in the direction of social progress which might otherwise have halted for a generation or two. Almost everything depends upon the conceptions that are in the minds of those who have it in their power to make these critical decisions. Thus if a great war be short, and its wastage and destruction not too great, there may be certain compensating advantages resulting from the unity of a nation in a period of danger, calling for intense effort and self-sacrifice.

In a democracy, the one clear mark of progress is the average improvement of all the people—first, in what we may call "morale"; second, in economic condition. Morale implies intelligence, solidarity, the confident acceptance by a large majority of what are deemed beneficial aims and motives in the direction of the body politic. Morale implies the orderly pursuit of wise and wholesome things, the submission to just laws, the striving for an environment that promotes popular education and ministers to physical or moral health. Economic progress makes account of improved standards of living, with guaranties against the old-time menace of poverty, with well assured returns for labor, and with enough stability to make for thrift and contentment.

When, in the emergency of a great war, government is obliged to recognize individual efficiency, and to dignify courage and manhood, there may well be rapid advances in real democracy. Our own government, in its classification of its citizenship, requires the services of several million young men for the army and navy. It thinks of them not as "cannon fodder," but

as its most precious element and possession, its future rulers and leaders in all forms of activity. It proposes to shelter, clothe and feed them well; it surrounds them with the best medical and sanitary care; and it undertakes to improve them physically and mentally before returning them to civil life. It provides them with life insurance, and it makes allotments to members of their families. In its relation to these men, the government conceives of itself as a wise employer, intent upon conserving and upbuilding his labor force by every salutary means he can discover.

In the production of war materials, the government finds itself obliged to consider the problems of labor from every standpoint. Its decisions are all in favor of reasonable hours, the encouragement of a spirit of patriotism and good will among the workers, generous wages, the provision of comfortable housing facilities, and the safeguarding of industrial neighborhoods, whether those of shipbuilding or munition plants, from infectious disease and from the contagion of vicious resorts.

It is obvious that the power to draft men for military service implies the power to draft men for the industries without which there could be no fighting. This power to draft labor as well as to control war industry puts government in a position which makes any sort of paralyzing conflict between labor and capital a practical impossibility. Both capital and labor must therefore accept the government's adjustments; and there must be no strikes or lockouts during war-time in any vital industry. This principle has been fully endorsed, and government mediation is settling all differences and gradually standardizing labor conditions. The result is that while our government is carrying on international war it is establishing industrial peace.

Many of the government's policies which have exhibited swiftness in decision and rapidity in execution have in reality been based upon long periods of previous study and experiment. This is true of those interesting model cities that we call "cantonments," in which many hundreds of thousands of soldiers will have been trained, with benefits—due to conditions and environment—that are easily shown in statistical averages. It is also true as regards plans for the housing of workers in the new industrial centers. Architects, engineers, sanitarians, industrial experts are all at hand, capable of giving wise direction to the expenditure of the millions appropriated by government for the housing of labor.

I am strongly inclined to the view that the generous policy of government toward labor is a wise form of conservatism. This is illustrated in the remarkable fact that more than seventeen million different individuals were able to subscribe to the third war loan. With the practicing of thrift and care, it will become possible for the wage-earners to hold very considerable portions of the successive loans placed by the government, while the encouragement of agriculture will tend to increase the number of farmers and gardeners owning their own homes and lands. Private property widely diffused makes for stable and conservative progress in a democracy like ours. In former war periods, the masses of people were relatively the heavy tax-payers; while at this time large business profits and large personal incomes are paying the bulk of the taxes. When rich men



pay the taxes and laboring men receive interest on their bonds, the tendency is a healthy one for a country that believes in popular progress and self-government.

THOMAS B. LOVE, Assistant Secretary of the Treasury: The topic of the Government as an Employer is a peculiarly appropriate one at this hour, when the government of the United States is an employer on a larger basis than ever before in its history. It is the largest employer in the world, the largest employer in the history of the world, and it is not too much to say that there is no single element in all our great war task that is of more importance than wisdom and prudence and essential justice in all of the phases of the nation's employment. The government at this time is the employer of something more than two million soldiers and sailors representing our fighting forces, and with respect to the basis upon which this employment is laid I think it may be fairly said that the government is an employer on a better basis than ever before in its history.

In all of the conflicts and contending opinions, since the war began, upon questions arising out of employment and incident to employment, there are some elemental facts upon which all schools of thought have agreed. An honest contract of employment, whether made by a government or a private employer, individual or corporate, and whatever the grade or character of the employment, must provide for a living wage; and it is generally agreed that a living wage means something more than the mere cost of subsistence for the worker while he is at work. It must also provide for the expenses of living for his natural dependents, and for the expenses of living of the worker and his natural dependents during the hours of the day and the days of the week when he does not work. Further, it must provide for them during those periods when he is unable to work through his physical disability, arising from disease or injury, whether occupational or otherwise, or from old age; and it must include provision for the support of his dependents after his death so long as the conditions of dependency may continue. These things are essential to the living of the employee. Without them life is not worth living. They are simply the fuels of service without which there can be no efficient service.

Contracts guaranteeing these things may contemplate that the employee shall be paid a fixed periodical stipend representing the cost of his ordinary living, and in addition the cost of providing for the contingencies which may arise in the event of his disability, old age or death. Such a contract may contemplate that the worker will set aside and conserve the portion of the wage representing these contingencies, so that when they arise he will have the means in hand to meet them; or, it may contemplate that he will provide for them through purchasing insurance protection against them. Another means is that the worker shall receive a fixed periodical stipend, and shall be committed to a reliance upon the voluntary contribution of the employer in the event of his disability or death or old age. Yet another would contemplate that the employer will pay the employee a fixed periodical stipend somewhat less than if the employee were to carry the risks I have described, upon the condition and with the agreement that the

employer himself will undertake to make certain and definite provisions, as a part of the contract of employment, and as a part of the compensation of the employe, for carrying him through periods of disability, and carrying his dependents in the event of his death.

I cannot better illustrate this latter method of compensation than by explaining briefly the basis upon which our two million and more soldiers and sailors are now employed by the government of the United States. In the War Risk Insurance Act and the other acts which fix the basis of employment for our fighting forces, the government says to the enlisted man, "We will pay you a certain fixed monthly compensation. We will furnish your food and clothing and all medical service. If you have a wife and children, either or both, we will require you to make a definite allotment out of your monthly pay, which shall not exceed one-half your pay, and to this allotment the government will add an equal or greater amount as an allowance and pay this allowance to your family and dependents monthly for their support. If you have no wife or child, and have other relatives dependent upon you for support, and you wish to make a voluntary allotment independently for their support; or, if you have beside a wife and children other dependent relatives, and you wish to make an allotment in addition to the compulsory allotment you are required to make for the support of your wife and children, the government will supplement that voluntary allotment with an equal or greater allowance, and disburse those allotments and allowances to dependent relatives other than wife or child on a monthly basis." In this way the government agrees with the soldier to make a certain definite dependable provision for his wife and children and these other dependent relatives while he is in the service.

It says also that if he becomes disabled or discharged on account of injury or disease arising in the line of duty, and not due to his own wilful misconduct, the government will pay him a certain fixed monthly compensation contingent in amount upon the number and personnel of his family, so long as his disability shall continue. If he loses his life in the line of duty and not as a result of his own wilful misconduct, the government will pay to his wife or child or widowed mother, all of them if he has them, if not, such as he may leave, a certain fixed monthly compensation so long as the widow or widowed mother remains a widow, and to the children until they arrive at the age of eighteen years.

In addition to these provisions, the government declares that if he desires to purchase additional protection against his own total permanent disability, and against the loss of his breadwinning ability for his dependents through his death, it will provide that he may take not less than \$1,000 or more than \$10,000 of insurance, which shall be furnished him at the ordinary peace-time rates, less any loading for expense, and less any addition for the war hazard, the average rate being about \$5.50 per month for a \$10,000 policy. If the soldier is totally and permanently disabled, whether in the line of duty or not, this insurance shall be payable to him in 240 equal monthly installments until his death, or in the event of his death before the total number of installments have been paid, the remainder of such installments shall be paid to his designated beneficiaries. If he dies, the total

amount of insurance is paid to his designated beneficiaries in 240 equal monthly installments.

In carrying out this provision for the soldiers, which is an essential element of the scheme of employment of the soldiers, the Bureau of War Risk Insurance, which was created by Act of Congress, approved October 6, 1917, has written more than \$18,000,000,000 of insurance, and in carrying out all these provisions for his protection and welfare has actually mailed to the families of our fighting men up to this date more than 3,000,000 individual checks. This happens to be about the number of checks that the United States Pension Bureau issues each year to the beneficiaries of our pension list, representing the fighting men in all the wars of our country's history. In addition to the disbursements to the allottees of our soldiers and to their families, there have been 1,700 compensation claims paid, of which 1,096 have been on account of the death of soldiers, and 614 on account of their disability. These claims represent a monthly disbursement of \$44,000, and this amount is of course constantly increasing with the increasing number of disability claims constantly arising. The total amount of the money disbursed for allotments and allowances to the dependents of the soldiers is approximately \$75,000,000. There are about 750,000 of these checks being mailed now each month. The number is rapidly increasing. It seems certain that within the period of not more than sixty days the number of checks issued each month will be at least a million.

Probably the most remarkable phase of the growth and development of the War Risk Insurance Bureau has been in its insurance department. You will understand that the soldiers are permitted to take voluntarily not less than \$1,000 nor more than \$10,000 of this insurance, there being no element of compulsion whatever affecting their taking or not taking the insurance. We have at this time approximately 2,300,000 men, representing officers and enlisted men, in the army and navy of the United States. I think I am quoting the most recent figures that were given out on that subject. Last night there were eighteen and one-half billions of dollars of insurance in force in the War Risk Insurance Bureau, representing just about two and one-quarter million applications. I should say that that insurance probably covered 2,200,000 risks, because there are a few of the applications which represent more than one application for the same soldier. You may better visualize this growth of the War Risk Insurance Department during the past six months if I tell you that it has today in force nearly four times as much insurance as the largest private insurance company in the world. It has in force more than the twenty largest life insurance companies in the world put together. It has written within the past six months more insurance than all of the insurance companies, including fraternal, beneficial associations and insurance companies of every class, wrote in the United States for the year 1917. We have paid or we are paying 4,241 death claims under these insurance contracts, and ten total permanent disability claims, representing an average monthly disbursement of about \$189,000.

This scheme of provision for our fighting men is certainly the most

liberal provision ever made by any government in the history of the world for its fighting forces in time of war. It has seemed to me that it represented probably the soundest and wisest and most prudential form of employment ever used by any nation in time of war or in time of peace. May it not be that it will have an added value in that it will point the way to our country and to the nations of the earth for a rational and sound system of employment which will be mutually beneficial to society and to the worker for peace times as well as for war?

HUGH FRAYNE, of the War Industries Board: I think this war is going to do more to harmonize the world, although it is a great price to pay, than any other thing that could have happened. One of the things that it is doing is to make the government an employer, the largest employer in the world, the most humane and generous employer. As time goes on we shall increasingly realize that many things that might have appeared as impossibilities a few months ago have become actualities and are in operation, in order that we may meet conditions as they confront us today. Fifty per cent of all the money spent by the government today is spent in wages to those whom it employs. That applies not only to civilians but to the officers of the army and navy, the soldiers and sailors, men who are paid much less than they would receive as civilians, yet the conditions under which they work surpass to a very large degree those existing in any other government in the civilized world.

There is a great difference of opinion regarding the government as an employer. Personally I am glad to see that this change has taken place. I am glad that the government is an employer in control of the railroads. There may be some little difference as to wage conditions, which is only natural, since a new experiment dealing with millions of money and millions of employes is bound not to be immediately workable. But as time goes on I do not doubt that the relations between the government and all of its employes will be most amicably adjusted, so that strikes, actual or threatened, and difficulties of all kinds affecting the workers and their employer, the government, will be entirely eliminated.

This condition might well be taken as a pattern by employers in civil life. If there are any who complain that the government should not enter into the field as an employer, they themselves are responsible for forcing that condition. At this time I am sorry to say there are many who expect to use and exploit labor by working long hours for small wages, with the high cost of living such as confronts us today, and they cannot complain because the government, needing the services of men and women that this war may be not only fought but won, is not going to be an exploiter of labor. There will be no sweat-shop conditions, child labor law violations, or overworked and underpaid women workers where the United States government is the employer, and there will be a strict adherence to all labor laws, without labor disturbances.

There are many departments of the government that, whether through legislation or by conciliation, have been able to reach an understanding with their employes. As time goes on this relation can be fully developed. Many complaints by employers in various sections of the country have

come to my notice, that the government, through its direct or indirect contracts, had taken their employes away by offering a higher wage. Upon investigation it was made evident that under present conditions this was only a living wage, and that these people, notwithstanding the generous amount they received upon their contracts from the government, expected the government to assist them in maintaining low standards, making it impossible for workingmen to provide decently for themselves and their families. The government cannot be expected to maintain a low standard.

What has been done to meet the condition brought about by the war simply hastens the inevitable. The public utilities, the things that the government needs, should be under government control and it is now recognized that it would be better if other industries that are not under control as yet, were taken over. Then the government would be in a stronger position to cope with the many situations that arise as a result of the war and to deal with them, in my judgment, in a much more effective manner.

Labor is satisfied with the government as an employer. Little differences here and there are only small ripples on the wave. Labor will give to the government every ounce of strength, support and co-operation in the mines, the mills, the factories and the workshops, with one object in view—the winning of the war. It has declared that it would give its strength, its skill and its earnings to bring the war to a successful conclusion. But thereafter, there shall be no distinctions. This is neither a rich man's nor a poor man's war. It is the common cause of all the people of our country. Labor looks to the government of the United States not merely as a fair employer, but as an example of true democracy to the world, embodying the highest ideals in all its dealings with the people of our country, especially those whom it employs.

V. EVERIT MACY, chairman of the Shipbuilding Labor Adjustment Board: The war has brought us constantly face to face with many problems, but none that have been more complicated and far reaching than the labor problem. We have taken many steps to provide for a sufficient supply and distribution of raw material. So far little has been done in that direction in regard to labor, yet our raw materials are of small value unless we have the skilled labor in the right place to put those materials to use.

We have long been hearing much about economy, but in our use of labor we have been very uneconomical. The efficiency and usefulness of the individual have not been considered in any way, and there is no essential of industry in which we are shorter than in skilled labor and its proper distribution, and this very shortage has made us exceedingly wasteful in the use of labor. It has brought about a very abnormal turnover in labor, that is, the men have been changing from occupation to occupation, from shipyard to shipyard, or from industry to industry, which has resulted in lessened efficiency and added expense. Possibly I could not illustrate the situation better than by showing you some of the problems that our shipbuilding board has had to meet in the past few months. War brings about revolutionary changes and one of those was the establishment of

our Shipbuilding Labor Adjustment Board, created by an agreement between the Navy Department, the Fleet Corporation and the American Federation of Labor, and providing that all questions affecting hours and wages in the shipyards shall be submitted to this board, and that their decision shall be final.

We began operations early in September, and I think it is a great point in favor of this way of handling these labor matters, when I say that since September, although during that time there were possibly 80,000 men employed in shipyards, and now there are 350,000, there have been no strikes in any of the shipyards in the country of any moment during that period. There have been half a dozen strikes involving possibly 500 men, but they have not lasted more than twenty-four hours, and when the leaders have told the men that this was in violation of their agreement, and ordered them back to work, in every instance they have gone back. As a rule they have gone out because they did not understand how the disputes were to be settled, or that any machinery had been provided for settlement. Knowing the situation, they have gone back immediately.

There are two difficulties that stand out prominently. First, this labor turn-over, men shifting from yard to yard. We went out to the Pacific Coast, and after several weeks of investigation and public hearings, going from Seattle to San Francisco, we determined that the most feasible way of stopping this was to prevent any inducements to the men for changing from yard to yard. We therefore introduced a uniform scale of wages for the entire Pacific Coast.

This was the first industry in which such a board was established, because the government is taking practically the entire output of the shipyards, and is paying the entire cost of any increase in wages, thereby enabling us to take action, and enabling the establishment of this board between two parties, the government and the labor unions. The yardowner was not taken into consideration particularly, because he does not pay the bills. It costs him nothing if wages change.

This was radical, but it was not sufficiently radical. Our board was authorized only to establish a minimum wage. Now we find that owing to the shortage of labor and the large number of men still needed in the shipyards, our minimum wage has simply become a higher basis upon which to start bidding for men than formerly. The only step that seems possible in the present situation has been for the Fleet Corporation to say that it would not pay the bill if higher wage scales were paid than those provided by our board. But that in itself does not meet the situation, because we have had many instances of yardowners naturally anxious to live up to their contracts, who find themselves falling behind, with an insufficient supply of labor, and in several instances they have offered higher scales, paying the difference out of their own pockets. That simply creates discontent in the next yard, and even if it does not produce any strike, it at least continues this shifting of labor from one yard to another.

We have systematized it as far as possible by putting in one scale for the Atlantic Coast. That seems revolutionary in itself. The scale extends from Maine to Texas. When we first began on the Atlantic Coast we had

three scales of wages, but immediately we began to hear from yardowners and the Fleet Corporation officials that men were leaving the two low points and going to the high point, so that all the yards where the scale was below the high point were short of men. We then made one scale for the entire coast.

But the problem is far broader than that, far broader than any one industry. To meet it we must go further; the government and the employers must realize this as well as the men. We must establish for various industries not a minimum wage or a maximum wage, but a standard wage; and some relation must be established between various governmental departments, because we find that while we have prevented the shifting of labor from one shipyard to another, labor is now shifting from one industry to another, and from one governmental enterprise to another. It is not at all uncommon for us to have complaints from yardowners here in New York—I have in mind one particular yard in this vicinity which has been almost closed down because we prescribed certain hours, certain allowances for overtime and certain wages, and another government department, whose prevailing rate is different from ours, let large contracts in the vicinity, thereby absorbing all the men from that particular shipyard. Yet we cannot change to meet that local condition, because if we do, it means changing the scale all along the coast. We have to begin to think in larger terms, not in local terms or terms of our own particular industry or shop. We must think nationally. Many yardowners come to us and say, "If you will allow us to do this or that we can turn out so many more ships." But we reply, "How is that going to affect the yard next-door to you, and the yard in Philadelphia or Boston? Will this change produce a greater national output of tonnage, or will it be confined to your yard and create disturbance in other yards?"

The next steps to take in this field are these: First, establish centralized federal labor employment bureaus in all important sections. Instances of the difficulties arising when private employers are permitted to advertise freely will illustrate the importance of the suggested bureaus. A certain shipyard advertised for 500 men, having discharged 200 the previous day. They may have advertised for blacksmiths to come from Oklahoma to New York. There was no knowledge whether they were qualified blacksmiths or not, but the men, who might not fit the position, traveled clear across the country. Another instance is that of 300 boiler makers who were sent to Seattle, with their expenses paid, to work in a shipyard, and they had not been there three weeks when a manufacturer of ice machines in St. Paul offered to pay their fare there in an effort to lure them to St. Paul. It is simply a merry-go-round. This condition could be largely eliminated through central employment bureaus.

The other necessary step is to have closer co-ordination between the various government departments, and in addition to them, with the private employer who has no government contract. He and the men employed by him, as well as those in government work, must be controlled in some manner. We fixed a wage on the Atlantic and Pacific Coasts which at the time it was fixed was a liberal wage, allowing for the full increased cost

of living, a wage sufficient to attract skilled men to the shipyards, and now many men have left the yards because some of the automobile industries offered them fifteen cents an hour more than would have been permitted in the shipyards. For us to meet that increase in wages does not increase the number of coppersmiths. There are only 1400 or 1600 coppersmiths in the country, and if we raise our scale fifteen cents it will not create one more man. It would simply mean that these outside industries would raise their scale to one dollar.

Unless we are all prepared to take more radical steps than we have yet taken, without fear of what will happen after the war, but take the necessary steps to win the war, we shall not get our full maximum output for war purposes.

## THE GOVERNMENT AS EMPLOYER—LABOR INFLATION

SAM A. LEWISOHN

IT is interesting to note that while the country has been comparatively prompt to see that the direction of all our material resources, whether raw materials or finished products, must be handled from a national point of view, it is only just coming to realize that as to its intangible resource, labor, this government must also regard itself as if it were an individual; whether labor is employed in so-called "private" or so-called "public" enterprises. Thus we have had priority in copper, steel and transportation, but no priority in labor. We have had government price-fixing in copper, steel and transportation but no fixing of standard wages for labor. Yet labor is the base on which all our material resources for war or other purposes must be built. Some of the unfortunate conditions outlined by Mr. Macy are due to this disparity in approach. Our tardiness in treating this problem as we have treated other problems is no doubt due to the greater delicacy of the labor problem and to the intricate political and social problems involved.

Mr. Macy has given you his experience as an official member of the employing staff of the government. I can speak only as an unofficial member of that staff of the government—that is, as an officer of a "private" essential industry. One of our plants happens to be turning out a product that a division of the ordnance department has denominated as "the most important article now being manufactured on the war program." We employ approximately 1,500 men and have increased the wages of our labor an average of eighty per cent since 1914. This year alone we have made two increases of ten per cent each. The prices of our products are fixed by the government under the proper theory that we are merely a branch (unofficial of course) of the government, but on the other hand the price of our labor is not so fixed. A large number of plants manufacturing for the government have been built in the vicinity, but none are manufacturing any product more essential to the government than ours—many not nearly so essential. Members of our force are being continually enticed to these plants. Our force happens to form a peculiarly isolated community which is clannish in its habits and resents any newcomers from outside, so it is



difficult to supplement. On the other hand, an influx of labor agents is causing a continual seepage from our plant. We should be glad to pay almost any reasonable rate if we knew just what the ultimate rate would be, but there is practically no standard which we can set for ourselves and the question of the increased cost of living has long been passed. Thus with the selling price of the product fixed, there is a variable at one end and a constant at the other; and owing to the uncertainty of our labor cost we have no means of reporting to the government what our present costs are as a basis for a readjustment of the price so fixed.

But the main evil is the resultant instability. It is true that the greater number of men who leave the plant do not, taking in all the circumstances, better their condition, but are merely tempted by the alluring picture painted by some all too competent labor agent. They may and in many instances do, return, merely having disturbed the continuity of their work and helped to increase railroad congestion. The very competency of the agent in question as a salesman is thus a social detriment. This unrest and instability, though it may be a healthy symptom in normal times, is a serious menace to the government's great war undertaking; for this particular enterprise must be regarded as merely a typical branch of that undertaking.

The laboring man is in no way to be blamed—he is restless and “on the make,” but this is because the conditions artificially created are admirably adapted to invite this attitude. It is the reaction which urges all of us on to better our conditions—a creditable and healthy instinct. Of course, a certain percentage of the increase in wages was desirable from a social point of view, but now it comes to a point where we are having what might be termed “labor inflation.” We are attempting to prevent inflation in other directions by our taxation system and our price fixing, but we have failed to prevent inflation in this most important factor of our industrial cost.

The result is that our plant is meeting great difficulty in turning out our essential product in the quantities imperatively desired by the government. It is this basic labor problem that hampers us. Other problems, and there are many, those of us responsible for the management of the plant can solve and have solved, but here we are helpless in the face of a national problem. We have found from realistic experience that the government is the employer—and it alone can solve the problem.

The remedies for the conditions described are well recognized—they are not only a standard rate of wage but also a priority system exercised through our labor exchanges. Through direct or indirect pressure we employers must be compelled to procure labor through these official agencies, and these agencies must enforce a priority system. The main thing is that the government shall recognize itself and be recognized as the real responsible employer. The problem has been placed in splendid hands under the direction of Mr. Felix Frankfurter, but if his efforts are to meet with success, we employers and employes, recognizing that we are merely agents of the government, must co-operate in every way and cheerfully make the sacrifices which co-operation will necessarily entail.

# THE NATIONAL CONFERENCE ON WAR ECONOMY

A REPORT BY

R. FULTON CUTTING

Chairman, Joint Committee on Arrangements, and

SAMUEL McCUNE LINDSAY

Chairman, Sub-Committee on Program

**T**HE Boards of Trustees of the Bureau of Municipal Research and the Academy of Political Science at a joint meeting, held in New York city in March, decided to unite in a call for a National Conference on War Economy to discuss budgets, thrift and economy in public expenditures. It seemed that this was a good time to urge upon citizens everywhere the wisdom of public economy and the necessity for reconstructing the instrumentalities of state and local governments, thereby helping to solve the huge war-time problems of national financial policies.

The call was issued for the Conference to meet in New York on June 5-6, and in addition to the active support of the two organizations mentioned, the co-operation of the National Municipal League was secured. The League agreed to arrange the program for its Twenty-sixth National Conference for Good City Government in conjunction with that of the Conference on War Economy. This also brought into affiliation the Governmental Research Conference, the Association of State Leagues of Municipalities, and other bodies of professional workers in governmental affairs which met with the National Municipal League. The response to the call was very gratifying. The governors of Connecticut, Kansas, Indiana, Illinois, Maryland, Michigan, Nebraska, Nevada, New Jersey, New Mexico, Ohio, Pennsylvania, Virginia and West Virginia notified us of the appointment of delegates, as did likewise the mayors of New York city, Buffalo, Syracuse and Yonkers in New York state; Reading and Scranton in Pennsylvania; Newark, New Jersey; Salt Lake City, Utah; and Portland, Oregon. Other governors and mayors appointed delegates, of whom we were not officially advised. Other delegates were appointed by the following organizations: Chamber of Commerce, Birmingham, Ala.; Oakland Chamber of Commerce, Oakland, Cal.; Cham-

ber of Commerce, Colorado Springs, Colo.; American Federation of Labor, Washington, D. C.; Chamber of Commerce of the United States, Washington, D. C.; National Federation of Federal Employes, Washington, D. C.; National Association of Letter Carriers, Washington, D. C.; War Industries Board, Washington, D. C.; Washington Chamber of Commerce, Washington, D. C.; Boise Commercial Club, Boise, Idaho; United Brotherhood of Carpenters and Joiners of North America, Indianapolis, Ind.; Chicago Association of Commerce, Chicago, Ill.; International Brotherhood of Electrical Workers, Springfield, Ill.; Springfield Chamber of Commerce, Springfield, Mass.; Maine State Board of Trade, Bangor, Me.; American Federation of Musicians, St. Louis, Mo.; Chamber of Commerce, New Bern, N. C.; Chamber of Commerce of the State of New York, New York city; Federal Council of Churches, New York city; National Security League, New York city; Real Estate Board of New York, New York city; Russell Sage Foundation, New York city; United Cloth Hat and Cap Makers of North America, New York city; Duffy-Powers Company, Rochester, N. Y.; Staten Island Civic League, Staten Island, N. Y.; Chamber of Commerce, Massillon, Ohio; Philadelphia Chamber of Commerce, Philadelphia, Pa.; Printing Pressmen and Assistants' Union Home, Rogersville, Tenn.; Sherman Chamber of Commerce, Sherman, Tex.; Young Business Men's Club, Petersburg, Va.; Richmond Civic Association, Richmond, Va.; Chamber of Commerce, Seattle, Wash.; Milwaukee Association of Commerce, Milwaukee, Wis.

A complete list of delegates registered as members of the Conference is given at the end of this report.

The chief object sought in the organization of the Conference was to focus public attention upon thrift and economy in public expenditures and upon instrumentalities of better management in the conduct of governmental enterprises—national, state and municipal. Interesting experiments are being made in local government under the pressure of war necessity, which it was hoped could be studied and given wider publicity. The preservation of democratic institutions and the largest measure of local self-government consistent with efficiency in national tasks, the elimination of unbusinesslike methods in public affairs in order to mobilize America's genius for organization—these and similar thoughts dominated the plans for this Conference. It was attended by

financial and executive officers of cities, states and nation, as well as by students and writers in the field of political science.

Four sessions were held as follows:

I. Executive Leadership in a Democracy. The opening session was held in the large Horace Mann auditorium at Columbia University, Wednesday evening, June 5, at eight-thirty o'clock. Mr. R. Fulton Cutting presided. Dr. Samuel McCune Lindsay, on behalf of President Nicholas Murray Butler, presented the greetings of Columbia University and read the following letter of greeting from Governor Charles S. Whitman:

May 8, 1918.

MR. R. FULTON CUTTING,  
509 Kent Hall,  
Columbia University,  
New York City.

Dear Mr. Cutting:—

I am in receipt of your letter of April thirtieth, extending an invitation in behalf of the New York Academy of Political Science and the Bureau of Municipal Research, to attend a National Conference in New York city, which is to be held at Columbia University on the evening of June fifth.

I wish sincerely it were possible for me to be present at this time and to give an address of welcome in behalf of the State of New York, but unfortunately an engagement of long standing in the northern part of the state for that date makes it impossible for me to attend.

I feel that this occasion offers a rare opportunity for national service, and I do not have to assure you of my own personal interest in the work of this conference. May I ask you to extend my cordial greetings and believe me,

Cordially yours,

CHARLES S. WHITMAN.

Hon. Wm. P. Burr, Corporation Counsel of the City of New York, represented the Mayor of New York city, and presented the greetings of the city.

The program of this session then followed in this order:

1. Executive Leadership in a Democracy. Introductory address by R. Fulton Cutting, Chairman, Board of Trustees, Bureau of Municipal Research.

2. Recent Efforts to Introduce Responsible Leadership in American Government. Dr. F. A. Cleveland, Industrial Service and Equipment Company, Boston, and former Chairman, Taft Economy and Efficiency Commission.

3. Executive Responsibility for War Economy. Hon. Frank O. Lowden, Governor of Illinois.

4. Reorganization of State Government in Virginia. Col. LeRoy Hodges, representing Governor Westmoreland Davis of Virginia.

5. Reorganization of State Government in Illinois. Charles E. Woodward, Esq., of Chicago.

6. Administrative Reforms. Richard S. Childs, Secretary of the Short Ballot Organization.

II. Financing Local Governments. The second session convened in the Belvedere Room at the Hotel Astor at ten-thirty a. m., June 6. Mr. Mortimer L. Schiff of Kuhn, Loeb and Company, New York city, presided, and gave an introductory address on the topic of the session. The other addresses were:

1. The Pay-as-you-go Policy in New York city. Hon. Charles L. Craig, Controller of the City of New York.

2. Capital Issues for State and Municipal Debts and Their Relation to War Financing. Paul M. Warburg, Vice-Governor, Federal Reserve Board, Washington, D. C.

3. Discussion of the general topic of the session: Howard L. McBain, Eaton Professor of Municipal Science and Administration in Columbia University; Arthur M. Anderson of the staff of J. P. Morgan and Co.; Benjamin C. Marsh, Secretary of the Farmers' National Committee on War Finance, Washington, D. C.

III. The Government as Employer. The third session was a luncheon meeting in the grand ball room of the Hotel Astor at one o'clock, at which over four hundred persons assembled. Dr. Albert Shaw, editor of the *Reviews of Reviews*, and vice-president of the Academy of Political Science, presided. Addresses dealing with the mobilization of labor, the determination of a general labor policy by the government, the personnel of government service, and the settlement of industrial and wage disputes were made by Hon. Thomas B. Love, Assistant Secretary of the U. S. Treasury; Hugh Frayne, representing the War Industries Board, and the American Federation of Labor; V. Everit Macy, Chairman, Shipbuilding Labor Adjustment Board, Washington, D. C. A paper was submitted by Sam A. Lewisohn of New York city, discussing the general topic from the point of view of the relations of the government and private employers.

IV. The New Era in Budgets. The fourth and closing session of the Conference convened in the Belvedere Room of the Hotel Astor at three p. m. Mr. Victor Morawetz, Trustee of the Bureau of Municipal Research, presided, and gave an introductory address on The Need For a Budget. The other addresses and discussion were as follows:

1. The Budget as an Instrument of Political Reform. W. F. Willoughby, Director of the Institute for Government Research, Washington, D. C.

2. The New Jersey Budget Law. Arthur N. Pierson, Majority Leader, New Jersey Assembly, and Chairman, Commission for the Survey of Municipal Financing of New Jersey.

3. Budget Re-organization in Illinois. Frank O. Lowden, Governor of Illinois.

4. The First State Executive Budget. Emerson C. Harrington, Governor of Maryland.

5. Discussion. Dr. F. A. Cleveland, Boston; Dr. Frank J. Goodnow, President of Johns Hopkins University, Baltimore, Md.; Robert E. Dowling, representing the Real Estate Board of New York city.

6. Paper read by title: The Development of the Budget in Illinois. Omar H. Wright, Director of Finance, Springfield, Ill.

The attendance at all sessions was large and representative. The practical suggestions and the determined patriotic spirit of the conference will be carried home to many communities by the delegates who participated therein. The Academy of Political Science is distributing widely the proceedings and report of the Conference. The Bureau of Municipal Research will endeavor to follow up and apply the suggestions contained in many of the addresses by bringing them to the attention of the executive officers and legislators in all parts of the country, and through the press will urge them upon the attention of voters and those who shape public policies.

DELEGATES APPOINTED TO ATTEND THE NATIONAL CONFERENCE ON WAR ECONOMY, NEW YORK, JUNE 5-6, 1918.

Aach, William	Galena, Kan.
Adler, Emanuel D.	Milwaukee, Wis.
Archer, R. L.	Huntington, W. Va.
Archibald, Alexander	Newark, N. J.
Barth, Isaac	Albuquerque, N. Mex.
Bauer, Robert	Scranton, Pa.
Bayne, Howard R.	New Brighton, N. Y.
Bee, Wm. F.	Boise, Idaho.
Bennett, Walter H.	New York city.
Berlet, E. J.	Philadelphia, Pa.
Blackford, John J.	Yonkers, N. Y.
Blair, Henry P.	Washington, D. C.
Blodgett, John W.	Grand Rapids, Mich.
Bollenbeck, Wm. J.	Milwaukee, Wis.
Brewer, Richard	Suffolk, Va.
Brown, Paul W.	St. Louis, Mo.
Bryan, Chester E.	Columbus, Ohio.
Buckman, Clarence J.	Langhorne, Pa.
Budish, J. M.	New York city.
Bugbee, Newton A. K.	Trenton, N. J.
Callahan, Timothy F.	Lewiston, Me.
Campbell, Daniel	Scranton, Pa.
Casey, A. J.	Scranton, Pa.
Chamberlain, Frederick S.	Hartford, Conn.
Chambers, Walter E.	New Castle, Ind.
Clause, W. L.	Pittsburgh, Pa.
Combs, Lester	Anthony, Kan.
Conan, Mark E.	Syracuse, N. Y.
Coplon, Charles	New Bern, N. C.
Corbin, William H.	Hartford, Conn.
Crosman, George L.	Portland, Me.
Crowther, J. E.	Seattle, Wash.
Creager, A. Y.	Sherman, Tex.
Darst, J. S.	Charleston, W. Va.
Day, Jonathan P.	New York city.
Dolph, John	Washington, D. C.
Donaldson, W. T.	Columbus, Ohio.
Donahey, A. V.	Columbus, Ohio.
Dorward, O. B.	Reading, Pa.
Doyle, Bartley J.	Philadelphia, Pa.
Drew, John I.	Milwaukee, Wis.

Durkee, C. D.  
Eby, Clyde  
Eddy, Arthur D.  
Eglinton, A. L.  
Eisele, Edward  
Ellingson, O. J. S.  
Eno, Williams Phelps  
Ewing, Robert W.  
Featherston, D. F.  
Fischer, Otto H.  
Fuld, S. C.  
Fuller, O. B.  
Garrett, W. A.  
Goodykoontz, Wells  
Green, Samuel M.  
Groesbeck, Alexander J.  
Guild, Roy B.  
Gundaker, Guy  
Hall, H. L.  
Halley, William  
Hammersmith, A. A.  
Hanson, Rasmus  
Hardesty, Florence M.  
Harper, Robt. N.  
Haynes, Stanford L.  
Head, Hayden  
Hughes, L. A.  
Hyman, T. G.  
Ireland, W. E.  
Jackson, William P.  
Jacobs, Solon  
Jaffa, Nathan  
James, Lee Warren  
Jermyn, Rollo  
Johnson, R. A.  
Jones, Thomas E.  
Junker, Wm. E.  
Kaufman, D. J.  
Keeler, Fred L.  
Kephart, H. M.  
Kern, Mrs. E. K.  
Kiesewetter, L. F.  
Kirkbride, Franklin B.  
Kirschbaum, David  
Klauss, Otto L.  
Knott, Mrs. Arabella  
Kotecki, Louis M.  
Kresge, S. S.

Grasmere, N. Y.  
New Bern, N. C.  
Saginaw, Mich.  
Rosebank, N. Y.  
Scranton, Pa.  
Sherman, Tex.  
Washington, D. C.  
Birmingham, Ala.  
Indianapolis, Ind.  
Oakland, Cal.  
Boise, Idaho.  
Lansing, Mich.  
Ridgeway, Va.  
Williamson, W. Va.  
Springfield, Mass.  
Lansing, Mich.  
New York city.  
Philadelphia, Pa.  
Santa Fe, N. Mex.  
Yonkers, N. Y.  
Massillon, Ohio.  
Grayling, Mich.  
Concordia, Kan.  
Washington, D. C.  
Springfield, Mass.  
Sherman, Tex.  
Santa Fe, N. Mex.  
New Bern, N. C.  
Yates Center, Kan.  
Salisbury, Md.  
Birmingham, Ala.  
Roswell, N. Mex.  
Dayton, Ohio.  
Scranton, Pa.  
Laurel, Md.  
Scranton, Pa.  
Brooklyn, N. Y.  
Washington, D. C.  
Lansing, Mich.  
Harrisburg, Pa.  
Washington, D. C.  
New York city.  
New York city.  
Philadelphia, Pa.  
Indianapolis, Ind.  
Fort Scott, Kan.  
Milwaukee, Wis.  
Detroit, Mich.



Lafean, D. F.	Harrisburg, Pa.
Laing, James	Tottenville, N. Y.
Leland, Henry M.	Detroit, Mich.
Lippy, T. S.	Seattle, Wash.
Lynch, James J.	Yonkers, N. Y.
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McNabb, P. J.	New York city.
Magee, Robert V.	Watertown, Conn.
Mason, Jos. C.	Springfield, Ill.
Mayfield, Max	New York city.
Merwin, E. C.	Massillon, Ohio.
Miller, Walter P.	Philadelphia, Pa.
Moore, C. Lee	Richmond, Va.
Mott, C. S.	Flint, Mich.
Myers, W. H.	Wakefield, Kan.
Neslen, C. Clarence	Salt Lake City, Utah
Odell, Samuel	Lansing, Mich.
Ogden, William J.	Baltimore, Md.
Payne, W. L.	Topeka, Kan.
Pease, J. Lorin	Oakland, Cal.
Perry, John H.	Southport, Conn.
Perkins, Henry J.	Springfield, Mass.
Phelps, Harry	Howells, Neb.
Pierson, Arthur	Westfield, N. J.
Pittman, Key	Washington, D. C.
Randle, Arthur E.	Washington, D. C.
Raymond, Thomas L.	Newark, N. J.
Read, William T.	Trenton, N. J.
Reese, Andrew	Massillon, Ohio.
Rennie, T. H.	Pell City, Ala.
Roberts, E. E.	Washington, D. C.
Rogers, Frank F.	Lansing, Mich.
Royer, R. Stuart	Fredericksburg, Va.
Ruth, B. Frank	Reading, Pa.
Samter, Samuel	Scranton, Pa.
Saville, Thomas	Scranton, Pa.
Schieffelin, Wm. Jay	New York city.
Schlueter, Harry	New York city.
Shaw, Edgar D.	Washington, D. C.
Shober, F. L.	Philadelphia, Pa.
Slugg, Morris L.	Belfast, Me.
Smith, Alfred E.	New York city.
Smyth, Calvin M.	Philadelphia, Pa.

Snyder, Charles A.	Harrisburg, Pa.
Springer, Frank	Washington, D. C.
Steinhardt, John	Nebraska City, Neb.
Stern, Erich C.	Milwaukee, Wis.
Thrift, James F.	Baltimore, Md.
Thom, Corcoran	Washington, D. C.
Thurmond, J. S.	Alderson, W. Va.
Tippy, Worth M.	New York city.
Tredwell, E. A.	New York city.
Tropp, Eugene	Scranton, Pa.
Upmeyer, Wm. H.	Milwaukee, Wis.
Van Duyne, Harrison R.	Newark, N. J.
Vandernoot, P. J.	Washington, D. C.
Vaughan, Coleman C.	Lansing, Mich.
Verdon, F. A.	West New Brighton, N. Y.
Vyne, Leonard	Newark, N. J.
Wadhams, John H.	Torrington, Conn.
Walsh, Wm. J.	New York city.
Webster, Morris C.	Hartford, Conn.
Weesner, M. L.	Red Cloud, Neb.
Wells, Harold B.	Bordentown, N. J.
White, Gaylord S.	New York city.
White, H. M.	Petersburg, Va.
Wirth, William	Scranton, Pa.
Woodward, James F.	McKeesport, Pa.
Yeager, Edward	Reading, Pa.
Zaritsky, Max	New York city.

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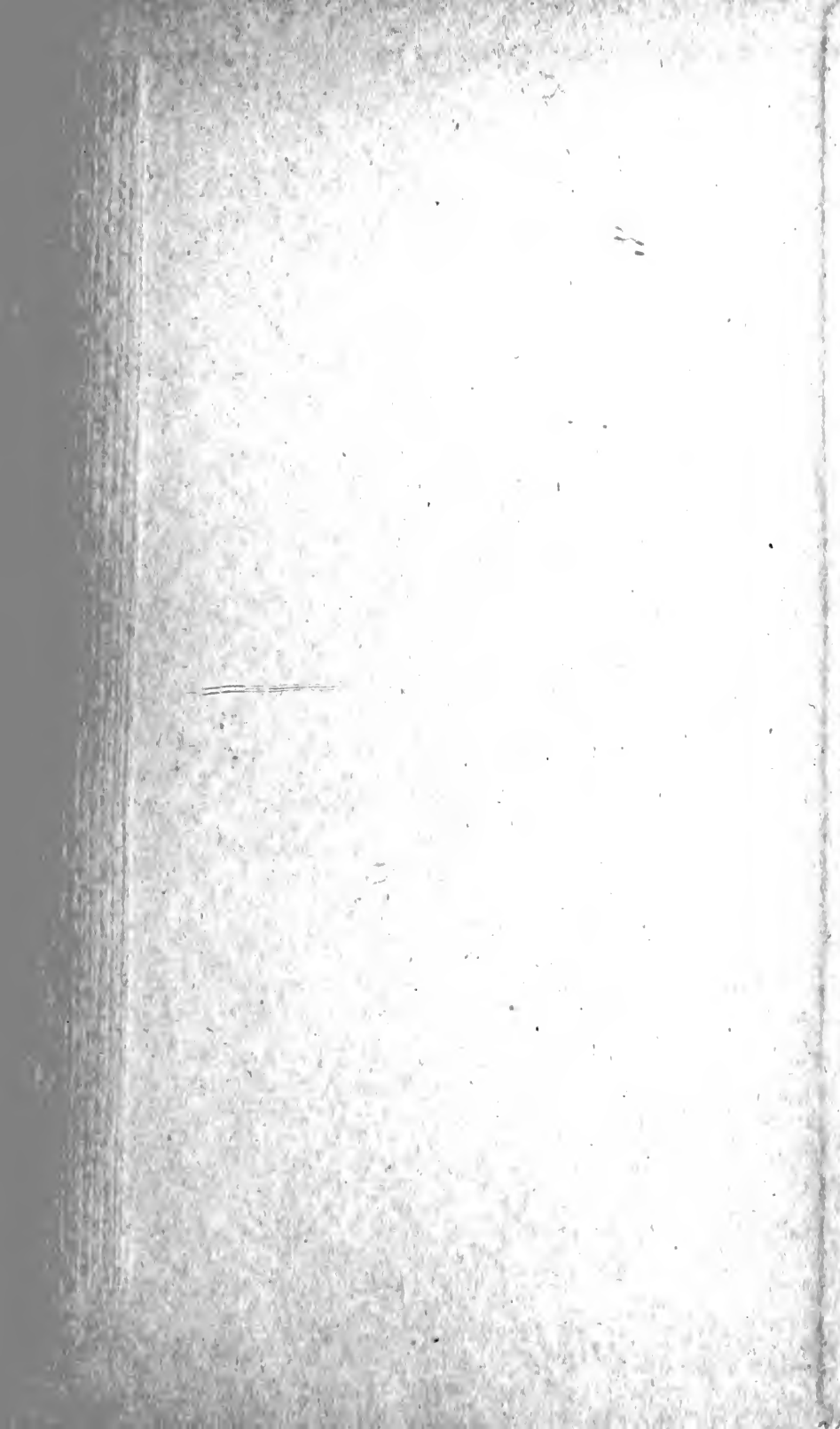












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